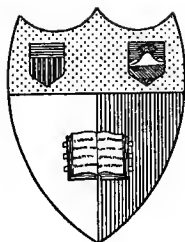


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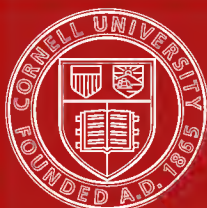
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CREDITS AND COLLECTIONS

ORGANIZING THE WORK
CORRECT POLICIES AND METHODS
FIVE CREDIT AND COLLECTION
SYSTEMS

ed. by

T. J. Zimmerman



A. W. SHAW COMPANY

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CHAPTER I

THE GENERAL FUNCTION AND WORK OF A CREDIT DEPARTMENT

BY PETER R. EARLING

Chairman, World's Congress on Credits and Collections

The handling of credits has undergone a radical change in the last ten years. The work is now being done under modern methods, with greater intelligence and a better knowledge of the subject on the part of the credit man. In fact, the dispensing of credit has been reduced, if not to a science, at least to a study on scientific lines. A close scrutiny of the losses from bad debts reported by the agencies from one year to another leads me to estimate that the present improved methods of credit management are resulting in a saving of at least \$25,000,000 annually to the creditors throughout the country. And this estimate applies to normal industrial conditions; the saving in time of depression and panic would show a much larger sum.

At first glance this statement might seem to indicate that we had curtailed credits and become hard and distrustful, but that is not a true inference. Credit is dispensed to-day as liberally as ever, but it is a more intelligent dispensation. By cutting off the unworthy from credit, we are in position to extend it to the worthy more than we ever could before. The curtailment applies to those who are not entitled to

credit, and it is from this source that we estimate the decrease in losses

Prior to ten years ago the credits and collections of the average concern were delegated to people who did the work incidentally and without giving it much attention and study, and the results were necessarily unsatisfactory. The collection end of the business was particularly remiss. If a customer made a small payment now and then on account, he continued in good standing.

All this is changed now. We sell goods with a definite understanding as to terms, and we rather expect bills to be met according to these terms. As for carrying accounts indefinitely, that is done to a very limited extent now—at any rate not with the creditor's approval. One reason for this change has been that the decreasing margin of profit in business does not permit long-time credits. The business man of to-day must turn his capital much oftener than did his father to make a profit, and prompt returns for goods have become a necessity. It was no doubt this necessity and these conditions that made business houses recognize the importance of better methods in the handling of credits and collections.

In asserting that the present day credit man's work is done on a more scientific basis, I do not mean that the matter of extending credits in any individual case is being governed by infallible rules. That could not be done. But the credit man can and does keep the average of his losses within a certain percentage of the gross sales from year to year, and to the extent that he does that he is doing his work on scientific

lines. A life insurance company does not know how long any one of its customers is going to live, but it does know, absolutely, the average length of human life, and that we call arriving at a scientific basis on which to do business.

A large part in this improvement in credit and collection methods in the past few years has been played by the improved facilities for carrying on this work more efficiently. The mercantile, reporting and collection agencies have all bettered their service to meet the demands made by the credit departments, and it can safely be said that the more we demand and are willing to pay for the more we may expect.

Even the smallest wholesale houses in these days have their credit men and their more or less well equipped credit departments. The larger houses have elaborate systems and equipments, affording the credit man every facility for getting quick and reliable information and action.

What a Credit Man Should Be The position of credit man is one of great responsibility and is invested with dignity and importance. While his department is not everything, yet he is recognized as being a very vital factor in a business, on whom a considerable share of its success depends. The credit man's office is distinctive and affords him opportunity to distinguish himself.

Who is the best credit man? We cannot consider the credit man per se at all. We must consider him as the head of one of many departments of a business, and his department must work out that policy which is best adapted to the business as a whole and which will bring the best general results. An identical credit and collection policy for all lines of business

and all houses would not do. The choice of the proper policy is really a matter requiring careful study, and depends on all the varied factors which go to make up a business and its environment. But whatever the nature of the business, that credit man is the best who will approve the largest percentage of orders and still keep his percentage of loss down to a fair average. One credit man might refuse half the orders which came to his house, while another would accept 90 per cent of them, and both show the same percentage of loss. The 90 per cent credit manager would certainly be the more valuable man of the two.

The credit department should be strong and efficient. It pays to be liberal in supplying it with every necessary facility for securing accurate information and quick action. But this department should not make itself obtrusive, least of all offensive and dictatorial. It should rather keep a little in the background, and a friendly and confidential attitude on the part of the credit man is much better than a distant and imperious bearing. While in some cases the inquisitorial method of investigation becomes imperative, when doubts upset our faith or past actions call for explanation, yet the ideal manner for the credit man to meet the new customer is in an informal way, and not in the capacity of an inquisitor.

The attainments of a credit man should be many and varied, though not at all marvelous or supernatural. He must needs be a thorough scholar, an apt correspondent, a fair lawyer, a practiced accountant and a good collector, besides being a sound business man. He must possess good judgment, be quick to read human nature and judge character, and, more than all, he should possess strong intuitive faculties.

After all, our impressions of men and things seldom proceed from logical deductions. They are intuitional—and an ounce of intuition is worth a pound of logic when we come to reckon with human nature and its manifold ramifications.

For young men working into the credit department I would suggest that they make themselves thoroughly familiar with bookkeeping, accounting and accounts. A good credit man needs to be a proficient accountant in order to be able to analyze business conditions and property statements and reports with discrimination. There is a wide difference between the bookkeeper and the accountant. Of the former there are plenty, good, bad and indifferent—mostly indifferent—but good accountants are scarce.

As a preliminary training the credit man should also have had a turn as house collector. The proper handling of collections plays a most prominent part in the credit man's work and his efficiency.

With the present facilities at the command of the credit man, it is hardly excusable in him to make a bad credit at the start, and I venture to say that very few losses are made on the initial credit. In this respect credit making has greatly improved in late years.

The extension of unwise credit to applicants with bad or unfavorable records can be avoided by using ordinary care and industry in getting information from one source or other, all well known and comparatively easy of access, and this requires no particular shrewdness. Credits made to such as these are past rectifying and are inexcusable. Sagacity and discrimination are not called for in passing on this class, nor on the million dollar rating. The office boy could

dispose of these. But between these two extremes of good and bad are ninety-eight out of every hundred cases which come before the credit man, which have no special earmarks. They cannot be classed among the discreditable, nor yet among the unquestionably good. As a matter of fact, the great majority of the men to whom we sell have for their principal capital only experience and energy and more or less ability. Their success is contingent on times and circumstances which they cannot altogether control, and the creditor is, therefore, taking a joint risk with them, and it is well to bear this in mind.

Underneath it all there lies a fundamental principle which must govern us in making credits and which adds value to our accounts. Excepting the few notoriously bad and dishonest dealers, we have reason to assume that men in business will pay if they can, even though, as an abstract proposition, they may have no definite notion of honesty or commercial honor. Every man, nominally, must make a living for himself and his family; he selects this or that business as being best suited to his circumstances and experience; he invests what little money he had earned and saved in it. Now the success of this business, to the extent at least of making a living for him, is everything to this man. He does not want to lose it. He understands it better than he does anything else, and the work is easier for him than any other. He has learned and knows that he can continue this business on one condition only—that he pay his creditors, and with reasonable promptness. Honesty and good commercial usages commend themselves to him as being necessary, or, in other words, he realizes that hon-

esty is for him the best policy. All men, with rare exceptions, follow out this line of reasoning. We say honesty is the best policy; to be honest is really the most politic thing a man can do, for it reduces the struggle for support and success to the minimum.

It is stated as a law that all human action follows the line of least resistance. This same law certainly applies to business and to business men. We start in business to remain in it until we can retire honorably and in comfort. Changes from one business to another are not contemplated. The business or profession which we have learned and followed is the easiest for us to pursue; we follow the line of least resistance.

A liberal policy in credit making is necessary for the healthy growth and popularity of a house. To be popular is next to being successful; in fact, the most successful houses are the most popular the world over, and vice versa. But a liberal policy in credits need not mean an easy-going policy. This might, and in all probability would, work harm and ruin to the house in the long run. I know of a very successful house whose policy in credit extensions is wide open, in ordinary times at least, and yet its losses are exceedingly small. The salvation clause, however, rests in the collection department. This end of the business is drawn very tight. Credit is readily given—with due discrimination, of course—but settlements are expected promptly at maturity of bills. This is, in fact, the ideal system to follow. The house gains popularity and a name for liberal treatment, which it deserves. But when the bills come due, then it is time for the other fellow to do the proper thing.

Accounts and collections being the essence of the subject under review, a consideration of accounts and their analysis and the art of collecting is of supreme importance.

**Analysis and
Consideration
of Accounts**

Dealers in merchandise are likely to have remnants left over with the utmost care in selection, and so, dealing in credits, remnants are likewise unavoidable. Past due collections are remnants which did not clean up as calculated by the credit man. These remnants may be worth nothing, or they may realize full value, depending on the kind of effort made to clean them up. In any event, they are not just what we bargained for.

That the credit man should have remnants is no reflection on his ability. He determines to his satisfaction, from the array of facts and information before him, that the credit he passes on is collectable; but no amount of human sagacity can determine whether bills will be paid on the day they are due.

Up to maturity we have accounts; after maturity we call them collections. Another department of work is then made necessary, and involves the matter of facilities and services at our command for doing this work.

Every account may be said to have three distinct stages of existence: First, before maturity; second, at maturity, and third, past maturity. We might add a fourth, and call it past recovery.

Accounts before maturity rarely give us any uneasiness, and even if they do, we are not in a position to enforce collection at that stage. As a matter of fact, the losses sustained by the mercantile world on accounts before maturity are very small. There is reason for this. It depends, of course, a great deal on the

alertness of the house in making its credits. It is safe to say, however, that we seldom lose on bills not yet due.

Accounts at maturity also do not disturb us. We make demand for payment when due. In a large number of cases the money comes without demanding, the debtor keeping close watch on his accounts payable and remitting promptly on the day due. Others not so methodical pay on request or they honor draft. Up to this point the work is easy, involving neither worry nor loss of sleep.

Accounts past maturity are the things which perplex and worry us, for we know that of these our profit and loss account is made up. Yet as to any particular account we may not feel specially uneasy. There will always be a considerable percentage of past due accounts, and no business house conducted on the ordinary lines is without them. However, as long as they are simply past due, and only our first request has been ignored, there is still no ground for alarm, particularly when dealing with the smaller merchants. A great many men have peculiar ideas about paying bills, and some have no ideas at all on this subject.

Delinquent customers are divisible into several classes—careless, chronically slow, temporarily hard up and insolvent. Now, which pertains to our case? To decide this and do it right—there comes the rub. This is the most critical juncture in the life of an account, and the most difficult problem to solve. The strictly correct solution is to ignore possible conditions altogether and say: the account is due and we must have the money—and take peremptory steps get it. But there are two protests against this procedure. The man may be all right, and policy says

that we cannot afford to drive this customer away; and then the matter of expense comes in. Furthermore, to send the collection to a lawyer at this uncertain stage might be an injustice to the debtor. So long, then, as we presume the customer to be good for eventual payment, we are inclined to use only the coaxing process.

Because an account is not paid promptly when due does not signify that the debtor is no longer to be trusted, or that our claim is doubtful.

Accounts	
Become	Very many people in business do not
Doubtful	know the value of punctuality, and are

careless in meeting any or all engagements to a most aggravating extent, and yet we judge them, from past experience at least, to be good. They are simply careless and unmethodical.

The chronically slow man is no doubt most exasperating. He moves just so fast and no faster, and whether trade or seasons are good or bad makes not a particle of difference in his movements. He is even too slow to take offense. Sometimes we can reach a debtor by arousing his anger, but this class is fire-proof against anything so mild as words. As conditions of trade change this species is going to be less numerous. Of course, by bringing suit, this kind of a man will pay on the last day, and then be ready to buy of us again. He is slow to wrath, and a little thing like a suit does not disturb the even tenor of his ways.

The temporarily hard-up customer can generally give some reason for his condition, and very often there are very good reasons for his being unable to pay his bills with his wonted promptness. Generally, too, these people feel the gravity of the situation, and are eager to explain to us. In such cases it would be

harsh treatment, to say the least, to push a man to the wall, when perhaps, too, the circumstances are beyond the debtor's control. Where there are extenuating circumstances, and when we know what these circumstances are, we are forced to the course of forbearance and leniency from any standpoint from which we may look at the case.

Where do the insolvent debtors come in? That is an unknown quantity. Insolvency in the strict sense means such a condition of a man's business that his property will not pay his liabilities. In actual business this definition is modified to a state in which this condition becomes an admitted fact, for in times of depression and panic very few of our debtors would be found solvent if the test were put of compelling them to pay all their liabilities promptly at maturity. Assets, though considerably in excess of liabilities, are often not convertible into debt-paying factors. In the readjustment of things during panics, of conditions and values, time is an essential factor.

Until it becomes an acknowledged fact, therefore, and until all payments have really been suspended, we cannot call a concern insolvent. From the standpoint of the individual creditor, the insolvent condition, until legally declared so, does not bar us from collecting our claims. In all failures, except fraudulent ones, it always happens that payments are made, long after insolvency in fact. In most cases this is done through ignorance on the part of the debtor of his real condition. He hopes to pull through, and satisfies claimants as long as he can.

A good collector is an artist. But to be that comprehends a great deal more than is generally supposed or even apprehended by collectors themselves. As

a vocation it is capable of being made as important as any that I know of, and yet very few ever take it up as a business to be followed or to be studied. But usually firms attach no special importance to collecting, and it is turned over to an employe who can best be spared from other work, or to make a temporary place for someone, with no idea of permanency in that position. The employe himself looks upon this employment simply as a stepping-stone to something else in the house, and as a consequence never acquires sufficient knowledge of the vocation to be called a collector at all.

Let us take up the qualifications that should make a good collector: First of all, there must be an adaptation for the business. Before all else, a man must be a good judge of human nature. As this happens to be an intuitive faculty which men possess in varied degree, and as it is not a thing of experience or of training, we must look first to this natural qualification in the candidate for collector. This faculty of intuition, of intuitive knowledge, is a prime requisite, for only through its discernment are we enabled to form opinions, or, as we say, impressions. It would be absurd to believe everything that everybody will tell us, and how far we believe or disbelieve any statement depends on the impression made on us, and this impression is not a matter of willing or volition. On past due accounts the inventive genius for making excuses and giving reasons is particularly active. Sometimes reasons and promises given are pure fiction and sometimes they are honest enough, but based on too sanguine expectations. Sometimes promises are made with the intention of gaining time for the debtor's own purposes, and again promises are made to be kept.

How are we to know? If the collector is not a judge of men he cannot know. No man in these things is infallible, of course, but there is a marked difference in this respect in men.

Politeness is another quality which is necessary. To antagonize the man who owes us results in loss of his friendship; and it may do more—we will probably get his ill-will besides. This does not help the collector and will not be a good thing for the house. Civility is always better than its antithesis; it will get more business and more money. Underneath it, however, the collector is supposed to keep in mind, first, last and all the time, what he is after, and bend every effort in that direction. Sympathy, too, for conditions must not be lacking, for there are circumstances many times where sympathy and leniency should not be withheld. The bonds of sympathy beget confidence, and confidence between men, whether in buying, selling or collecting, is an important factor.

The collector should also be able to determine in his own mind the debtor's capacity and general ability as a business man and manager. He should have a quick eye for taking in the surroundings and general tone of the business.

Over and above all, the collector should be a good judge of stocks of goods and of property generally as to value and convertibility. He must always bear in mind that at forced sale, or in the event of trouble, property will not bring cost, and that accounts are not worth their face value.

The good collector also knows something about law. He knows what exemptions may be claimed by the debtor, knows the rights and privileges granted by

the law to both plaintiff and defendant, and has a fair idea of legal procedure in general.

If a collector be a good tactician, which he must be to be a success at his vocation, he will get the money or security or be thoroughly satisfied that further indulgence is safe, or, at any rate, the best policy under the circumstances and for the time being.

The above outline for qualifications for a collector may seem somewhat ideal. Of course, everyone who does collecting would not pass examination if this were adhered to as a standard, but if it were we would have a corps of well-trained collectors, whose assistance to our credit and collection departments would be of immense value.

Intelligent and unremitting persistence is the secret of success in collecting.

The first thing to do when an account is past due and demand for payment has been refused is to have the collector get all the information he can concerning the debtor. Let him look up the report on file, or have reports procured if not on file. This gives the collector an idea of the debtor's resources, character and other details, and is a great help to him in handling the case. Not that he will be governed by it. His next step will be to learn if the reports can be verified or not; for if they are wrong, the credit was based on wrong information to start with. It is important to know this.

When an account becomes past due and remains unpaid, after proper efforts have been made to collect, the collector has then an entitled right to ask for and demand information concerning the debtor's business. Under these circumstances the debtor cannot refuse the demand with justice, and if he does so, the action

is unwarranted and open to suspicion at once. The debtor asks a favor when he asks an extension of time, and in asking this, it becomes a duty on his part to satisfy his creditor on the score of his responsibility and solvency. This right on the part of the collector is a very important one at this stage. The information gained up to date should be comprehensive and state what the assets are composed of, viz., real estate, personal property, merchandise, accounts and bills receivable, and so on. A statement of the liabilities also is essential. A knowledge of these facts, corroborated, and of the general character of the debtor himself, places the collector in a position to determine intelligently whether it is safe to extend further time or not. There is always a time, and proper time, when we must know what to do and not guess at what should be done. The credit may have been ill-advised from the very start, or things may have intervened since making the credit that have affected the debtor adversely. In all these matters the collector is to find out these things in time, and without wasting time.

Sometimes a debtor becomes pugnacious. The ordinary tactics being unavailable in such cases, there is then only one other step to be taken. The lawyer must come in and enforce collection by law, and that without any delay. The preliminary work has been done, and the lawyer is not asked to waste valuable time in running after the debtor. It is expected that the collector knows what he is about when the claim is turned over to the lawyer; he is supposed to know that at this particular stage the claim can be enforced, although it may transpire that between the time of commencement of legal proceedings and execution the debtor defeats our efforts in the end.

At a certain stage in out-of-town collections the business man depends on the banks. Many houses, large and small, expect to pay demands through the banks by means of drafts drawn on them. The expense is nominal and the service is one of inestimable convenience to the creditor class, for without this accommodation on the part of the banks the creditor would be in a bad plight. In making our demands it must be done without antagonizing on the one hand, and on the other hand, there must be responsibility attaching to the people to whom we intrust the collection of our money. The bank supplies both of these requisites. The bank, in fact, is the recognized medium between creditor and debtor, and in making our demands through a bank we give no offense to our customers.

So far as concerns those collections through banks which meet with prompt attention and payment on the part of the drawee, the business is conducted for all parties in the best possible manner. When we consider, however, collections which are not paid on presentation or notification, on these the system and the service is weak, although not, let me add, from any fault of the banks. As a matter of fact, banks do not give themselves out as collection agencies. What they do for us must always be looked upon in the light of an accommodation, and so far as they can be of service to us without loss to themselves they are glad to do it. Nor have we any right to expect service of them which entails expense without adequate compensation. The truth is that few banks are making this department of business pay, and very few really solicit it; in fact, many decline it altogether. So far as collecting drafts goes, where only a simple notification or presentation

is required, they can do this without addition to their staff, and up to this point the bank's service is all right. But when it comes to using their staff as collectors in the sense we use our house collectors, they cannot and do not give the needed service.

A good many drafts are sent to banks, and after a shorter or longer interval of holding, the drafts are returned as unpaid collections. If the debtor states reasons for declining to pay, the bank usually makes the notation; but very often no reasons at all are given, simply "payment refused." The bank does not, in these cases, feel called upon to give its own opinion, and, on general principles, dislikes to be used as a mercantile reporting agency anyway.

The bank is the natural and accepted medium between creditor and debtor, without giving offense or in any way antagonizing our debtor. But this cannot be said of an attorney. We cannot make demand of our money through a lawyer without disrupting amicable relations. Worse than that, it at once antagonizes the debtor, and his attitude becomes one of resistance instead of compliance. That this is not a good mood to get our debtor into goes without saying. If we have concluded to drop him on the strength of positive knowledge that the claim cannot be made in any other way, of course there is no longer any room for hesitancy. But the trouble with out-of-town collections is that we do not act, and in this hesitancy is where the chief danger to our claims lies.

Even after sending claim to the attorney, we frequently waste much valuable time, resulting in the loss of a great many accounts by a dilly-dallying process, partly our fault and partly the fault of the lawyer. When we have decided to send our claim to the at-

torney, we have then practically broken off further relations with our debtor. We have set aside all policy in that case and have concluded to incur the expense of legal services, as nothing more is apt to be gained by waiting. We should instruct the attorney to enforce collection by law, without further delay, and not try to use the lawyer as a collector. We then place the attorney in a better attitude, too, toward the debtor. He has instructions and they must be obeyed, and neither personal friendship nor local interests can be allowed to influence him.

Attorneys are human, and generally prefer to collect by coaxing and waiting rather than precipitate a man's ruin, especially when attorney and debtor are good neighbors and personally acquainted, as is the case in small places. Now, the waiting and coaxing process would be all right but for one thing. The attorney's education is not on commercial lines in so far as being a competent judge of values of merchandise or personal property. The lawyer must not be expected to possess the keen insight into values of goods, business conditions and prospects of success in a business which requires mercantile training and experience. His vocation is to practice law and to enforce the law. All other work should be done before the lawyer is called upon.

CHAPTER II

THE ORGANIZATION AND MANAGEMENT OF A CREDIT DEPARTMENT

By DORCHESTER MAPES

The organization and management of a credit department is not unlike the building and superintending of a manufacturing plant; each requires architect, workmen, plans, material, tools, and all must be selected with an intelligent conception of the ultimate purpose.

It is the little details that make or mar the effectiveness of any structure or organization just as it is the little things of everyday life that make of life success or failure; nor does the likeness end there, for, as the life requires a sterling character, so the structure must have a firm foundation, the organization a master mind.

The demonstration of any proposition depends upon some accepted truth or fundamental principle, and so in dealing with this subject we must agree upon an axiom. Experience has convinced me that the prime essential to a successful credit department is that it shall have a head; a head who shall be manager in fact as well as in name, whose decision shall be final, and the results of whose judgment shall be accepted as predestined.

Much might profitably be said on this point, but for the present let us accept it as our axiom, and for

a corollary that the credit department and collection department must be so fused together and so conducted that each knows the other's movements and opinions—that the two shall be as one.

It is well-nigh impossible to treat the subject without going into the details of the methodizing of the department, but it is my intention to do so only in a very general way.

The selection of the credit department manager is, of course, all-important, and, as I have elsewhere said, he should be of unflinching determination, yet open to conviction; quick of decision, yet not hasty of judgment; he should have a faculty for discerning between truth and falsity, and still be neither credulous nor incredulous; he should be an accurate judge of human nature; he should be even-tempered, calculating and patient, yet quick to act in an emergency; he must respect the position and the opinions of others, and must certainly command the respect and confidence of both superiors and subordinates, and especially of the sales department.

The manager must recognize the importance of at least aiming to live up to the foregoing ideal, and in selecting his assistants he should look for those qualities which will tend to bring the entire department up to the same high plane.

In treating with his assistants he should encourage independence of thought and action and the forming of individual opinions, taking pains to explain his own course of reasoning, and differing arbitrarily only when reasoning fails.

This habit will cultivate self-reliance all down the line and make the department strong to grapple with

difficulties should they arise during the absence of the manager.

Subordinates in the credit department, from the first assistant down, must have high respect for the manager and confidence in his opinions; otherwise there will be lacking that perfect harmony and oneness of purpose which in this department of all others are absolutely essential to best results.

"Eternal vigilance is the price of liberty," and it is also most certainly the price of success in the credit department, for, while the gathering of information and forming of credit opinions is, of course, its primary function, its business is not finished until accounts are collected, hence there must be close and constant communion between the credit and collection branches of the department. So necessary is this that, while the credit manager can seldom give personal attention to the following up of collections, still if his opinions of each account could be constantly before the assistant to whom that duty falls, it would be a very great help. Having such information before him, that assistant should immediately report any indications which, in the light of said opinions, appear significant. There are ways of accomplishing this close relationship, one of which I will presently outline.

The manner in which an account of the average sort is subsequently handled by the collection department is quite as important as the original question of opening it, therefore I argue that (if we can separate the two) the work of the collection department is as serious and demands as high a degree of cleverness as does the work of the credit department.

If I were asked to name the one qualification most

needed in the collection department I should unhesitatingly say "decision;" indecision in the credit department is often dangerous, while in the collection department it is frequently fatal.

One may often, and all do sometimes, make wrong decisions, but indecision is wrong in any event. Delay in using vigorous methods to collect many times means a loss, while hesitation to grant an extension, if it is to be granted, or the granting of it with apparent unwillingness, annuls the good effect it might otherwise have.

The credit department cannot have too much information, but it nevertheless is frequently overwhelmed with a mass of voluminous reports containing much that is of little importance or only what might be as well expressed in half the words.

These reports, however, must be read carefully, lest some important fact be hidden away in a field of "words—mere words."

If our mercantile agencies would school their reporters and compilers to give facts in the fewest words necessary to clearness, putting a premium on terseness, they might save themselves much expense and confer a boon upon credit men.

To reduce the labor of reading through and through long reports from various sources, much of which is repetition, to make sufficient
System for the doing of it once in most cases, and to
Handling bring about that close co-operation with
Credit Data the collection branch of the department referred to, I have, in my own practice, worked out a plan which has proved so helpful that I venture to suggest it to others.

Having in a given case arranged all your information in form convenient for consideration and sub-

sequent filing, proceed to read, and let there be method in your reading; read on the lines and between the lines, making note of inconsistencies and exaggerations as well as prejudices for and against; endeavor always to discriminate between fact and fancy, and form in the meanwhile an opinion which, in the end, you are to formulate in the shape of a "brief," which shall in few words set forth the important or salient features of the case, preceded by a line of instructions to be followed in the subsequent handling of the account.

With a little practice such briefs, even in complicated cases, can be made quite exhaustive and still expressed in surprisingly few words, and in very many cases stereotyped forms may be used.

Transcribe this brief to a small blank, gummed on its upper edge, and paste the blank on the face of the latest or top report of the file, where it will remain as a marker between reports already examined and those which accumulate subsequently.

Now, if this brief be also transcribed to the face of the ledger account, then every item that is posted and every move made by the collection department, and, in fact, every move made by anyone in connection with the ledger account, will be made with that full understanding necessary to intelligent action.

Again, if the card-ledger system be used—and it is being adopted by many progressive concerns—marginal space for the writing of the brief can be provided, and this space will also be found very useful for other data necessary to an understanding of the account.

By this plan of briefing information, coupled with the use of the card ledger, there can be evolved a system of credit department methods which will be

safeguarded at every turn and as nearly automatic and perfect in its workings as can be anything which depends upon human foresight and human watchfulness.

The treating of information in this manner is beneficial, even if for no other reason, just because it will cultivate a habit of watching more closely for the points, often seemingly trivial, which make the risk desirable or otherwise. If one reads with a view of writing an opinion, the reading will surely be done more understandingly. The first effort is perhaps a trifle greater, but the brief can be dictated and the transcribing done by a minor clerk, and, regardless of effort or expense, it pays, for it makes the subsequent handling of the account work like automatic machinery; it strings live wires from every account so treated to the manager, and the least flaw or break is at once made known to him.

In his work of passing upon orders the credit man can, if the above methods be adopted, lay to one side every order about which he has the slightest hesitation, whereupon an ever-ready clerk will presently return to him the orders, together with their respective ledger cards, which will place before him at a glance the history and exact status of each case.

This will enable him to act upon his own rather than upon the lesser intelligence of clerk or bookkeeper conveyed through the usual reports of "Highest Credit," "Amount Owning," "Amount Past Due," which are often misleading, even if correct, and in themselves worth but little at best.

A good memory is valuable, but it is often treacherous, and may be a very dangerous thing if too much relied upon, especially in credit work. With training,

perhaps without, the memory can be made to serve as a fairly safe guide to generalities, but a system must be provided which will look after details, and do it so easily as to make dependence upon memory quite unnecessary.

Memory will often carry for years the general impression of "good" or "bad" in connection with a name, even though that name in the meantime has never been brought to mind. But it is unsafe to depend on memory beyond that point, for many of the "good" are good only under certain conditions, and very few are good regardless of conditions.

Furthermore, the records and opinions of the credit department should be as an open book for the use of the house, for, while the credit man will always gather some impressions and form some opinions which cannot well be defined and for which he can hardly give specific reasons, still it is intrinsically wrong that so important a factor in the operation of any business institution should be subject to the life, health or caprice of one individual.

The only scale by which any method or system can be measured is the scale of results; if through its use a full measure of the results aimed at is obtained, it is invaluable—then and then only is it a success. The system here briefly described has been subjected to severe practical test for several consecutive years, and, measured by the scale of results, it has proved a pronounced success.

Cordial fellowship and frequent consultation between the credit manager and the salesman are indispensable. Each must recognize the valuable assistance he can derive from the other and be ever ready to lend the reciprocal service which he can certainly give. The

**Relation of
Credit Man
to Salesmen**

credit manager can, if he will, make of every salesman a picket to warn him of approaching danger, because a salesman, if he be trained to view things from the credit standpoint, can glean information obtainable in no other way. He meets the customer in his home environment, where he is free from those restraints by which he is more or less controlled when on his guard, as he naturally will be in the presence of the credit man. The salesman thus has opportunity to observe and note those habits of business that make for or against success and those habits of life that go to make character, than which there is no more important factor in the consideration.

To accomplish this co-operation the salesman must be made to feel and to know—and it must be a fact—that the credit department is just as anxious as he to increase sales, but that, since the department assumes all the responsibility for the risk, its ambition must be always under perfect control.

Any discussion of this subject would, in my opinion, be incomplete if it failed to touch on the value of association. The progressive credit man of to-day appreciates this value, and no longer prefers to hold aloof from his fellows.

The National Association of Credit Men has become a power for good in the credit world. It has an enrolled membership of upward of five thousand, and its influence reaches to every corner of the United States. It has in eight years done more to advance general credit conditions, more to develop credit department organization and more to develop individual credit men, than could, by any other means, have been accomplished in a century. I am firmly of the opinion that no credit department organization will be com-

plete if it be not identified with the Credit Men's Association, for in no other way can it have the benefit of, and be in close touch with, the best thought and the best effort, the combined thought and the combined effort, that are being constantly expended along the direct lines of its work.

Nothing could be more demoralizing to the head of a credit department than that his work be harshly criticised just because, perchance, his foresight proves not so good, in some particular case, as some other man's "hindsight." The credit man, to do good work, must have the loyal support of his superiors, not only in the time of success, but particularly in times of depression, when his responsibilities multiply and his judgment, his nerve and his courage are most needed. I do beseech you, therefore, proprietors and higher officials, let the credit man at all times feel your confidence in him, or—"let him out."

CHAPTER III

THE CHARACTERISTICS OF A GOOD CREDIT MAN

BY F. F. PEABODY

President, Chubb, Peabody & Company

The title of credit men, as used in most houses, includes far wider duties than the term itself defines. The credit man is usually the responsible head of the entire office work, with general oversight over the whole bookkeeping and record department, and is in immediate control of the collections, as well as of the credit department itself. He is often cashier, too, the man in charge of the moneys of his house and with his finger always on the bank balance, the bills payable and the accounts receivable.

This multiplicity of duties is due to two causes. The credit man is pre-eminently the student of the business concern. In his particular work it is his duty to reach certain conclusions from careful investigation of the characters and conditions of men, through personal touch with them, and through study of documentary reports and historical accounts. He is the one important factor in the management of a business whose work is all on the inside. Therefore, the general management of all the inside work, the office work, is assigned to him, as being the one who can most conveniently oversee it, and who is the nearest to it, both territorially and functionally.

More important than this is the second cause,

based upon the fact that the credit man is in closest touch at all times with the bookkeeping department, that control over its methods is necessary for the proper carrying out of the policies and system of the credit department, and that he has, as a rule, come up through this department.

The test of a credit man's success as measured by his employer are four: The average annual losses, the accounts receivable measured by the average number of days' sales contained in them, the average percentage of discounts, based upon receipts, and the general office expenses, if he has the management of the office in charge. The first is a test of his ability purely as a credit man; the second and third his worth as a collector; the fourth his capacity in executive work.

For his purely credit functions, the credit man needs three distinct characteristics. First, a wide and
Three
Qualities
Necessary general knowledge of business methods and business conditions. When deciding whether to open a new credit account, the credit man must know the general business conditions of the territory in which the applicant is located, in order that he may judge whether the latter's sales and collections are likely to be such as will enable him to pay his account when it is due. For instance, if a crop failure seems imminent in North Dakota, he must draw in his credits in that region and must handle his accounts accordingly; on the other hand, if a well-founded and legitimate boom appears to be starting in Oklahoma, he should attempt to extend his firm's business there, and should be rather free, perhaps, in granting credit. He must know the general financial condition of the country, in order to judge whether the prospects on which the debtor depends for paying his

account will materialize, and whether his own firm can stand a further extension of its credit accounts in view of a coming financial stringency or industrial depression.

Every business man must, of course, have a general knowledge of business methods. But the credit man must be somewhat familiar with the details of all the lines of business in which his debtors are engaged, in order that he may determine from the facts which he has before him concerning an applicant for credit whether his capital, his sales, his expenses, his past experience, are such as to give promise of his ultimate success. He must know at least the elements of commercial law, the statutes of exemptions, the financial responsibility of corporation officers and of the members of a partnership, the legal age of open accounts, and similar generalities. He cannot have a detailed knowledge of these facts, but if they are merely a part of his mass of general information, his credit making will automatically and unconsciously be influenced and strengthened thereby.

The second necessary characteristic of the credit man is a keen insight and an analytical mind. The work of a credit man is a succession of decisions, each one of importance, but necessarily made hastily. These judgments are not arbitrary, but are based on a study of certain groups of facts, usually of four kinds: First, the general knowledge of the credit man himself; second, impressions gained by him from personal touch and acquaintance with the customer; third, specific facts concerning the character, ability and resources of the applicant, gained in various ways, and fourth, if he is an old customer, his record with the house itself.

It takes keen insight to at once fix upon the vital and decisive factors in this great mass of material, and sharp analytical power to sift the kernels from the chaff and to correlate those factors which are to be considered in connection with each other. The superficial credit man is liable merely to look at a debtor's quick assets, at his total outstanding debts, without going deeper, and especially without considering his character and qualifications for success and his surroundings. The honesty, good habits and industry of a debtor, the commercial condition of the locality in which he trades, and the esteem in which he is held there, are just as much a part of his capital as the cash he has invested in the business or the amount of his unencumbered property, and are even a bigger element in his chances for success. These items are perhaps harder to discover and determine than the mere statement of his capital and debts, but the good credit man will lay much stress upon them. In a long report, on a merchant perhaps a thousand miles away, it needs the most astute reading between the lines and the cleverest putting together of two and two to arrive at the true condition of this man's affairs. The problem is up to the credit man.

The credit man's third requirement is tact, and tact in the broadest possible sense. Tact means sympathy with other people, the ability to put one's self in their place and understand their condition without being told in so many words. It implies an openness to receive aid and advice, a willingness to learn new facts and change old methods. It carries with it the idea of caution and carefulness. No tactful man is impetuous; he weighs and considers all pertinent facts be-

fore he comes to a decision. Yet the very word **tact** implies ability to decide quickly; an intuition, almost, of the right course to take. The man of **tact** must have a good memory, otherwise he will make errors and blunders; he must remember people's weaknesses and their sensitive spots, in order to avoid them; he must remember their interests and hobbies, in order to fraternize with them; he must remember their strength and their pride, in order to appeal to their vanity.

Thus the tactful, sympathetic man will learn all he wishes from the customer who is being interviewed concerning his affairs so adroitly that he will go away without any loss of self-respect or any feeling of resentment, and yet leaving to the credit man the information he desires. The credit man has often to ask and do many things which are unpleasant and embarrassing both for himself and for the debtor. If he can do these things in such a way as to keep the good will of his customer, and even make himself the latter's confidant and adviser, so that the customer will voluntarily keep him informed of his condition, that is **tact**.

The ability to handle men is in part inborn. Some men we see who seem without effort to be able to influence, to impress themselves upon their fellow men, while others appear always isolated, at angles with those around them. But a very good and a very true imitation of this ability can be acquired, and nothing should be so impressed upon young men as the necessity of building up within themselves an attractive personality, of virtually setting themselves to forcing people to like them. Only let me emphasize this—the man who attempts to acquire this ability of handling people should remember that it must be based upon

a real sincerity, a real sympathy with and human feeling for his fellows. Mere surface smoothness, mere exuberant good fellowship, will not accomplish the object. There must be an understanding and a continuous study of human nature, a charity for human weakness, a fellow feeling of human interests. In this connection it should be especially brought before the credit man never to take the attitude that mankind in general is dishonest. This standpoint will more quickly kill his efforts and ruin his prospects than even the opposite extreme. It will hurt him with his trade; it will hurt him with his house; it will work against his success.

In his relations with the other departments of his house the credit man can make or mar his record. Especially essential is it that he be willing and eager to receive information and advice from those other factors in the business which have opportunity to learn and see things pertaining to his work from a different point of view than his. His relations with the salesmen of the house are particularly important and delicate. The amount of harm which a credit man with too exaggerated an idea of the importance of his office and its immense height over the realm of the salesman can do is incalculable. If only the credit man and the salesman will take each other into their confidence, will establish a reciprocal information and help arrangement, much profit will accrue to the firm in the way of reduced losses and added sales.

Caution and carefulness in the performance of his duties have been dinned into the ears of the credit man so much that there has been danger of his going to the opposite extreme. But when it is considered that more losses result from carelessness than from any other one lapse

on the part of the credit man himself, the emphasis can hardly be made too strong.

The place and time for caution are especially worthy of attention. In the granting of the first credit to a new customer, care is usually observed. The new name is probably wholly unknown to him. He inevitably feels the need of full information, and as such information is comparatively easy to secure, he obtains it at once. He looks him up in the rating books; he obtains the mercantile reports on him and private statements from him. If he concludes that it is not safe to extend the credit asked he does not have that feeling of breaking a business connection and losing a customer which he has when he refuses credit to an old customer. There is only one consideration especially liable to undermine a credit man's caution in making initial credits—the fear that if he refuses an account, a competitor will accept and profit by it. This phase of the matter should never be allowed to weigh with the credit man, for no course of reasoning could be more fallacious. Not only is he a very poor credit man who needs this consideration in helping him form his judgment, but it is also most illogical; if he believes the account unsafe in itself, and if he has the facts to back his opinion which he ought to have, he should be willing to let it go to a competitor—to the latter's undoing—for he will thus gain more than he loses.

It is, however, especially when an account has run on for a long time, when a constant succession of orders promptly paid has lulled the alertness of the credit man, that carelessness gets in its work. The credit man, overwhelmed with work, pressed for time, will allow an order to slip through here and there re-

garding which he is not absolutely sure, except that he knows the customer has been with the house a long time, and has a vague idea that he is good and pays promptly. It is on such accounts that he is most frequently caught. The credit man must be persistent and painstaking in his methods. By some means or system he should keep in touch with the trend of all of his accounts, both those of his good customers and those of the doubtful ones; lapses in the one should be caught and taken up as in the other.

In testing the credit man's ability and success by the average amount of his accounts receivable, the business man is really testing his ability as a collector and as a collector. In the judgment of many, a clever collector is more important in most offices than a brilliant credit man. By ability to collect is not meant the power to extract money from a refractory and unwilling debtor, but rather the ability to impress and train the debtor, willing or stubborn, in such a way that he will unconsciously get into the habit of paying promptly.

The prompt collecting of accounts has a triple compensation. It keeps outstanding accounts down, and thus requires less capital to run the business. The added value of a credit man who, by keeping his accounts receivable low, enables his employer to run his business with \$100,000 less working capital than his competitor is earning more than his yearly salary right here. In the second place, the strict collector is the best salesman. It is an admitted fact that a customer who has a past-due account with a house will place his current order with another house; the loss is apparent. Finally, statistics and credit men agree that the great majority of losses occur among overdue

accounts; a man who owes nothing cannot fail, and a man who pays every thirty days is most unlikely to become insolvent; the merchant who is held strictly to his payments will not be likely to over-buy, in fact, he cannot; collecting accounts when due will reduce the number of eggs which a house has in each of its customers' baskets; insisting on prompt payment will weed out the weaker brothers.

In discussing the characteristics which the credit man must possess to satisfactorily administer the affairs of the general office, one point needs particular emphasis. The credit man of the past has often been accused, whether justly or unjustly need not be determined here, of preferring old ways and opposing new ideas and methods because of the change involved and the trouble and expense incurred in adopting them. Many of the older school of credit men are moving along in the same old way, not realizing that the doubling of the volume of their firm's business more than doubles the details of their department. This type of credit man refuses to install some modern system for taking these details off his shoulders, for dividing his work, fearing, perhaps, that the work which he has been doing himself, if transferred to someone else, will not be done right. In thus giving his time to the performance of petty details, or even to the accomplishment of an overplus of important work, he comes to be looked upon as the busiest man in the house, an expression which is very often heard.

For a man in the position of credit manager to be over-busy must surely be considered a mistake and an injury to the best interests of the house. A credit man who performs a lot of detail and cumbersome work, occupying all his attention and absorbing all his

efforts, who allows a mass of unfinished work to accumulate, thus necessarily slighting all his work, the most delicate and important among the rest is practicing false economy. A ten-dollar-a-week clerk and a well-regulated system, which would take merely the routine, not the responsibility, off his shoulders, could save him much nervous energy and irritation and leave his time and mind open for more valuable work, for real thinking, which is the great need of business, as of all lines of activity to-day. A business attains the best results when its credit department—as represented by the credit man—keeps up to date in its work. The credit man of yesterday must realize that conditions have changed and that he must alter his methods to meet them; the credit man of to-day should prepare for the same situation, for his conditions will also change.

So the credit man must be modern in his methods. He must see that his credit department system and his general office system handle details quickly and accurately, and that this system sifts out of the details the vital facts which he should know and presents them to him quickly and in concise, comprehensive form, leaving him time for thought on problems which will always be present for his solution.

CHAPTER IV

THE FUNCTION AND WORK OF THE COMMERCIAL AGENCY

By T. J. ZIMMERMAN

The point at which the commercial agency enters into credit operations is between the receipt of the order and the shipment of the goods. Credit rests upon the seller's confidence in the buyer's ability to pay; confidence results from favorable knowledge of a man's character, ability and circumstances. In order to decide whether his house wishes to extend credit to an applicant, to determine the amount of credit which it is advisable to extend, and to decide upon the specific terms on which this credit is to be granted, the credit man must have certain general and specific information. Such information the commercial agency has made it its function to furnish.

The commercial agency is strictly a credit instrument—a product of the credit regime. Were all trade and business done on a cash basis, there would be no need or place for it. It has grown and developed in the last sixty years as the result of a definite need and an expressed demand on the part of the business world. While the result of the credit system, however, it has in its turn been instrumental in the vast extension of credit transactions and the resultant increase of business operations in the last half century.

The commercial agency had its origin in the panic of 1837. The immense losses incurred during this period of wildcat money and mushroom banks by mer-

chants all over the East, especially in New York, which at that time was the mercantile center of the country's wholesale business, made it absolutely incumbent on them to devise some means by which they could determine what merchants were safe credit customers. Although at the time selling on credit was not so widely practiced or plentifully supplied with determining and safeguarding facilities as now, the time of the individual credits granted was much longer. It was nothing unusual to give a year's time for the payment of an invoice of goods, and six months was the usual allowance.

Before this the practice had been to keep representatives on the road whose duty it was to visit those of its customers who were in any way accessible every six or twelve months, make a more or less careful examination of their financial circumstances, and report their information and conclusions to the house. Personal interviews with customers were believed in and depended upon to a large extent in the determination of their reliability. For at that time the retail merchant, if he was within the confines of civilization, paid his regular annual or semi-annual visit to New York, Philadelphia, or whatever city was the mercantile center of his district, and did his buying in person. Thus the head of the wholesale concern was personally acquainted, and probably even a friend—for they mingled social with business relations in these visits—of many of his customers, and acquired a close familiarity with their circumstances and even established a personal bond between them and himself.

The weakness of these methods lay in the fact that just those of a firm's customers concerning whom

it most needed information, and who required the closest watching, were not reached at all. This was before the days of railroads and telegraphs. New York houses were shipping goods into the wilderness of Ohio and Tennessee, even away across the unknown continent to the coast. Nothing could be learned regarding the status of these customers, the goods themselves were in transit three or six months before reaching the consignee, and a year might elapse before the firm even knew of their safe arrival. But these two methods were not even satisfactory as applied to those customers reached by them. The firm's reporters were far away, they could make only a cursory examination, and only at long intervals and at great expense, while the impressions derived from personal contact with customers were not infallible.

In response to needs of such conditions, made acute by the heavy losses of the panic of '37, came the commercial agency. It was not then what it is now. Its reports were meager. Its lists were incomplete. Its judgment and conclusions were necessarily often based on incomplete and false data.

Time, experience and the momentum of long years, however, have remedied many of these defects, until now the commercial agency plays a most important and weighty part in the business world. It has realized that absolute disinterestedness and impartiality are necessary for the making of reliable ratings; it treats all, small and great, equally as to rating and service; its information is secured and judgment made from such information, by the most experienced, careful and unprejudiced men.

The information which the agency affords is given in three forms: A quarterly book is issued by the

agency, containing the name, the business, the capital rating and the credit rating of every firm or individual in this country or Canada engaged in the mercantile pursuits. The agencies supply no information concerning private individuals or such as do not follow a strictly mercantile calling. In the second place, daily sheets are published by the agency, in which are noted all failures or bankruptcies, new incorporations, the establishment of new business houses and changes in ownership. Lastly, the agency furnishes what are called special reports concerning any firm or individual engaged in business, on specific request from an agency subscriber.

Any business man may become a subscriber to an agency by the payment of a yearly subscription, in return for which he receives twice a year the rating book and the daily sheets; in addition, he has the privilege of requesting special reports on any individual or firm rated at a slight cost per report. Request for such reports must be made out on a special blank supplied by the agency, on the understanding that the information asked for is to be used for a strictly legitimate mercantile purpose, and for no other, and is to be kept secret. This pledge is necessary in order to prevent, so far as possible, those who are not subscribers from participating in the benefits of the agency's service, and to guard against the use of the information for some ulterior or malicious purpose.

A special report contains the detailed information about a particular individual or firm: the character of the individual, or, if it is a partnership or corporation, the individuals involved, as judged by his past history, life, habits and reputation; his ability, as

judged by his business record and the present condition of his affairs; his wealth, not only that invested in the particular business under consideration, but any other property or interests which he may have; his debts, so far as they can be arrived at; his general social and business circumstances and connections—information on all these subjects is presented. Then follow details more particularly concerning the business in question, as distinguished from the man or men behind it: the capital, the outstanding accounts, the debts and their character, the amount and nature of the business done, the firms from whom goods are bought and to whom money is owed, the existence, if any, of secured creditors, and general statements regarding the business. The whole report is concluded by a general statement concerning the worth of the individual, the extent to which he can be trusted, and the manner in which he should be handled.

The credit man to whom this report comes sees not only the details presented, but his knowledge and experience tell him much more and enable him to read in the report facts not outwardly apparent, and to put the facts given into their proper relation. A special report is not intended to be a complete basis from which the credit man shall make his judgment; it is put in such a form that, combined with his own knowledge, experience and insight, he may reach a definite conclusion.

How is this information, given to the credit man in the three forms of quarterly books, the daily sheets, and the special reports, secured by the **Organization of the Agencies** agency? To tell this it will be best to begin with the last, the special report.

The agency has an organization of thousands of

reporters who are constantly gathering facts concerning mercantile houses. In the large cities of the country, where independent district offices are located, a force of reporters is constantly at work. The work is specialized in these large cities: one man has charge of each line of business in the wholesale trade, and the territory outside of the business center of the city is divided up into districts, to each of which a reporter is assigned. These reporters are kept at the same post for years and become thoroughly familiar with the detailed facts and conditions of their line of business or their districts, and with the houses and individuals in them. They keep track of and report to their managers the latest mercantile developments, tendencies, rumors, and even impressions, which they obtain.

Each of the district offices has sub-offices in lesser cities attached to it, numbering from two to eight, depending on the size of the territory and importance of its business transactions. Each sub-office has oversight over the territory around it, organizes it into reporting districts, and keeps track of its commercial affairs just as the offices in the larger cities do in their territory. Thus, the sub-office at Peoria, Ill., having charge of certain smaller towns and the territory around it, has several reporters always attached to it, who constantly make the rounds of this territory, just as the city man does in his district.

In addition to these district reporters, the agency has in its employ in the majority of towns where there is neither a district nor sub-office an attorney, whose duty it is to report into the sub-office straight news items, such as failures, new businesses and changes in

ownership, which cannot wait for the visit of the regular reporter, and also to make special reports in urgent cases. These men do not, of course, give all their time to the work of the agency. Every hamlet, every mercantile business, no matter of what proportion, is thus covered by this system of reporters and representatives.

The reporters make their reports regularly, the district city reporters daily, the country reporters periodically at longer intervals. The work they do, or the information they collect, may be divided into three classifications. First, they report the strictly news items which are used for making up the daily sheets. Such items, when they come up in sub-offices, must, of course, at once be telegraphed to the district office from which the daily sheets are issued. The agency has a telegraphic code of its own, which is always used in making reports of any kind by wire. This assures the absolute secrecy of the information and effects great economy in the expense of transmission.

Second, the reporters give an account of what may be called their impressions—that is, it may seem to them that a business is retrograding; that the owner or manager is growing careless; that the stock is being allowed to degenerate, or some man may tell them that his firm has put in a new line, increased its capital or made some other change. All these items appear in the periodic reports which the reporter makes.

The third duty of the reporters is to make the special reports which are called for. Thus, if a request comes into the Chicago district office for a special report on a merchant in Galesburg, Ill., and there is no recent report on file in the office, this request is

referred to the Peoria sub-office, in whose district Galesburg is situated, and a reporter from that office looks up the merchant and makes the report. Reports grow out of either a specific request from a subscriber, or, as is more generally the case when a new business is organized, the agency at once sends a reporter to get a report on the new concern, not only that it may have a report ready should it be called for, but also that it may insert the new house, with proper ratings, in the next quarterly book.

When these special reports come into the district office they are manifolded, and if they are of sufficient importance, that is, if it is probable that the firm investigated will seek credit in some other districts, a duplicate of the report is sent to those district offices, where they are kept on file and sent out in response to inquiries.

The information in the reports is obtained from two sources, direct and indirect. A statement is obtained from the individual or firm under investigation, who is asked a regular series of questions regarding his past history, capital, open accounts, debts, and so on. This information the reporter will judge, qualify and amplify from quick personal impressions which he gets concerning the individual and whatever part of the business he sees. Then some information is obtained indirectly, from other people, from the past knowledge of the reporter and the agency concerning the person in question, and from hints and impressions picked up here and there.

Of late years the custom has grown of obtaining the signature of the individual investigated to the financial statement which he himself makes. If this

statement is proved in any later developments to have been purposely falsified, the party is legally liable for obtaining goods under false pretenses, since the acknowledged purpose of such a report, it is always understood, is to afford a basis for the extension of credit. The credit man who has such a signed statement before him in deciding upon the extension of credit has something tangible and sound to act upon, and his judgment is facilitated thereby.

The special reports kept in stock are corrected periodically—regularly twice a year. Except in special cases the agency does not undertake to give other than the stock report on hand when one is called for; nor is it expected, for generally special reports are wanted at once without delay; in most cases their value to a credit man would be lost entirely if there were more than a couple of hours' delay in securing it.

The agency has other sources of information besides its reporters. In the district offices a force of clerks is constantly at work examining the state reports of incorporations and the court reports of bankruptcies, and even of suits brought against firms, for a man's financial standing can often be judged by the suits brought against him. Trade and financial publications and the newspapers are also examined carefully and systematically, and often afford information.

The facts thus obtained for the daily sheets serve as the basis and material for the corrections in the rate book issued by the agency in revised form every three months. As news of additions, changes or subtractions in regard to the business houses of the country are received, or as information warranting a change of rating comes in to a district office, the

necessary corrections are at once indicated on the last rate book, and at the end of every three months these corrections are gathered together and a new book incorporating them is issued.

Two ratings are given in the rate book for each business house rated—capital rating, which indicates the approximate amount of capital invested in the business, and the credit rating, which is the judgment of the agency as to the confidence which can be placed in the individual or firm rated. These ratings are usually indicated, not by figures or words, but by short abbreviations. The absence of either rating opposite any name does not necessarily indicate a very poor condition, but merely means that for some reason or other the agency has not been able to obtain information upon which to base a judgment.

How are these ratings made? This is the delicate and most critical point in an agency's business. The capital rating does not merely represent the statement made by the interested individual himself to the agency reporter; it is not even the amount of cash known to be invested in the business, nor, if it be a corporation, the amount of the nominal or paid-up stock. The capital rating is really the judgment of the rater as to the amount of commercial value or the par value of the assets which the firm rated may be considered to have in its business, all things regarding the firm and the business taken into consideration. The capital rating really purposes to estimate what this business is worth in money, its realizable net value. The invested capital or the capital stock of a firm may remain unchanged from year to year and yet its

capital rating may be changed time and again in the agency's quarterly book during this time.

In like manner, the credit rating does not merely indicate a certain fixed percentage of the capital invested for which the average business man may be considered good. This rating, even more than the capital rating, is the judgment of the rater, all things considered, as to the confidence which can be placed in this man or firm. It is the result of a careful study of this man's character, his present social and commercial condition, his business history for a score of years past. It is the rater's opinion of the man's integrity and resources expressed in terms of money.

That the commercial agency fills a need and occupies a legitimate place in the business world is proved by the immense expansion of its functions and activities in the last half century, the vast extension of credit operations in the same period, and the trust and confidence reposed in it. This description of its internal organization, its scope and its volume of detail is the best evidence of the place it fills in the credit world; it is the most indispensable, the oftenest used and the most versatile tool with which the credit man is equipped.

CHAPTER V

THE INTERCHANGE OF LEDGER EXPERIENCES

BY H. A. WHEELER

Vice-President, Union Trust Co.

No subject is more prominently before the credit men of the country to-day than that of perfecting a system for the interchange of credit or ledger experiences.

That it deserves first place among the topics under consideration is proved by the fact that, while the newest movement in the field of credit reporting, it is exercising a most beneficent influence over general business conditions, and, if indications point truly, is destined in the future to become a most potent factor within the reach of credit men in safeguarding the credit hazard, preventing fraudulent failures and providing an impartial and effective medium for the adjustment of disputes between debtor and creditor.

If these things be true, a careful study of the effectiveness of this system will fully repay any grantor of credit who desires to provide himself with the best means for reducing his ratio of loss by bad debts.

It will bear repetition that the purpose of the interchange system is to establish an impartial medium between debtor and creditor and between creditors themselves, providing a system whereby

those who are interested in any account may freely and unreservedly interchange the facts contained in their ledgers, without the necessity of direct reference each to the other, without divulging this information under their own name, and at all times receiving in exchange for items contributed by them the combined experiences of all others interested in the account. Thus the reciprocity becomes perfect and the knowledge of trade conditions is shared alike by all who contribute to the report.

The interchange of ledger experiences is not exploited as a new idea; but the application of a method, or plan, whereby an exchange of these facts can be made, with the least possible labor, and the best possible result, is new in the field of credit reporting. The movement which brought the organized interchange system into being is practically the only movement that has taken place in the agency world during the last half century differing in any measure from the methods employed and the character of information furnished in the beginnings of the business.

General and antecedent information is obtainable from a great variety of sources; different correspondents will have different ideas with regard to the worth and character and prospects of a merchant upon whom a report is being written; inquiry through different sources, or from different agencies, will probably develop a differing line of facts or impressions, and in this sense may be valuable to the creditor.

Trade information can be obtained only from the ledgers of the creditors; there can be no diversity, and a dozen interchange systems would only add to the labor involved in the credit office, without increas-

ing the value of the service in the slightest degree.

The seeking of trade information through direct application to references, if capable of development in the broadest sense, would doubtless be preferred over any other method; but its limitations must be apparent to any observer, and in this day, when every means is sought to shorten labor and attain the largest result with the least delay and effort, it would be impossible to establish a system for interchange of ledger experiences between interested creditors upon the basis of direct correspondence.

As an illustration, we will suppose that a merchant's account is active upon the ledgers of fifteen wholesale houses and in a given season he is seeking credit from five concerns that have never sold him before. We will suppose that all of the twenty houses are interested in anything that pertains to this merchant's credit, and, for the sake of argument, that each of the twenty knew the other nineteen to be interested, and, desiring a full trade report, were to dictate letters to all interested parties, asking for the condition of the account on a particular day, or within a given month. It will readily be observed that twenty houses will write to nineteen others for this information, and, including replies, will necessitate 760 communications, the postage on which amounts to \$15.20, and the time of dictation and writing probably beyond fair computation. Could any credit department cope with the labor involved in this system? Could the necessary correspondence be properly answered or the returns cared for when received? Would not the files become so bulky as to be impossible to handle?

Now, all that could be obtained as a result of

these 760 letters would be contained in a single clearance of a complete interchange organization, when, in response to an inquiry, each house is asked for its experience; the twenty experiences are centered at the point of inquiry; the information tabulated in the proper form and a copy of the report passed back to every contributing house. Thus, by a simple operation and at an expense of cents, where otherwise dollars would be required, every interested creditor is in possession of the full facts at the same time and under precisely the same conditions, yet with the added advantage that names of contributors are not known and the form of compilation permits a quick analysis of the information either by markets or by lines of trade.

The president of The Audit & Appraisement Company of America, in speaking before the Philadelphia Credit Men's Association recently, dwelt upon the short average life of business enterprises and the vital necessity for closely watching accounts on the ledger, if loss would be avoided. Organized interchange provides the only means for thus watching accounts in the light of one's own and one's competitor's ledger, and is unique in that it brings to the credit office, voluntarily, a number of reports many times that inquired for, delivered because somewhere through the system the report has been revised and the interested creditor has contributed his experience.

The value of this particular service cannot be overestimated, inasmuch as it draws the attention of the credit man to facts that oftentimes would never be discovered in any other way. Buyers invariably show decided favoritism in matter of settling accounts with certain

**An Automatic
Danger
Signal**

houses. This is not to be accounted for, except that a buyer has fallen into the habit of promptly paying one bill, where he allows another to drag, or desires to establish a record for prompt payment for purposes of reference.

Upon the ledger of the house which is being paid in a satisfactory manner the record shows only favorable to the buyer. There is no need for inquiry upon this account, because it is being carried strictly in accordance with terms of sale. It does not follow because the buyer is prompt in one case that he will be equally prompt in all; but there is no especial reason for the house whose account is properly cared for making inquiry, and, therefore, the account is carried along, and perchance increased, without the usual periodical investigation.

The interchange report forces upon this satisfied creditor a report on this buyer as often as such report may be called for by any house interested in the case, and some day there comes to the desk of the credit man a report which shows that his satisfactory customer is becoming badly involved with other houses. The information is timely, and enables him to lower his credit line and get the account down to a place where it may be safely carried and closely watched through future interchanges, to see that the unfavorable condition does not become an absolute menace to the life of the account.

Fraudulent overbuying is discovered through an interchange system when no other agency system can lend the slightest aid. Every year brings its full quota of merchants who have built up a good credit by discounting all bills, who for some reason find themselves either in a position where it becomes nec-

essary to largely increase their stock to overcome losses made outside their business, or to purchase largely for the exclusive purpose of disposing of the stock at sacrifice prices and making a settlement with their creditors on as low a basis as possible. That merchant who has sought to buy beyond his legitimate needs, or in other than his legitimate territory, is shown up through the compilation of orders placed, which clearly indicates excessive purchasing in its relation to the previous highest credit which he has enjoyed.

It oftentimes happens that a merchant is led to buy excessively through the importunities of salesmen, who argue that prices will advance and that it is wise to provide a large stock in anticipation of a rising market. These men are often saved from their own indiscretion by the interchange report, orders being cut down to a safe basis as a result of an accurate knowledge on the part of the credit man as to the volume of purchases in the respective lines of goods in which the merchant deals.

Interchange information often preserves a merchant's life and continues him as a good customer, when a lesser knowledge of the facts contained in the ledgers of the creditors would perhaps cause serious trouble by an effort to enforce the collection of delinquent accounts at a time when the merchant would be powerless to pay. Where a clearance shows an honest merchant largely indebted, and unable because of unfortunate local conditions, such as competition with bankrupt stock, or crop failure, to meet his obligations at maturity, the creditors, knowing the condition of each other's account, will be interested in getting to-

Possibilities
in Work of
Collections

gether, arranging for joint action with regard to the case, all agreeing not to push their claims, but to give the merchant time to work out of his difficulty. In the end not only will they preserve a customer whose trade will have great value in the future, but they will receive one hundred cents on the dollar for their accounts.

These are aids to the credit department not found in any other system of agency information, and possible of development through the broader co-operation of credit men, to a degree that will make the loss account but a fraction of what has heretofore been regarded a legitimate and satisfactory figure.

The assistance to the credit department in collecting chronically delinquent accounts is powerful beyond conception and rests entirely in the influence of an interchange system over the mind of a debtor, when he is advised that, unless an account is paid upon presentation of draft, or statement, the record of non-payment becomes a permanent record in the general interchange file, is made a part of every report as written, and must necessarily impair his credit with the houses whose goods are most to be desired.

Equally strong is the influence of the interchange system in correction of trade abuses by demonstrating the results which must inevitably follow the continued practice of unbusinesslike methods, such as returning goods, countermanding orders, making unjust claims, taking more discount than entitled to, and many other abuses from which the wholesaler suffers constantly and which, if not checked by some united action, will still further reduce the margins of profit, already low enough from keen competition and ever-increasing expense of doing business. Now, it

is not argued that this disagreeable feature can be entirely eradicated, but through a full interchange of experiences the guilty merchant can be taught, by making him familiar with the character and force of the report, that continuation of such practices will operate seriously against his success.

An established system for interchange of ledger experiences must be the product of natural growth.

System by Which Facts are Gathered Considering the complex nature of the proposition and the details involved, it is practically impossible that such a system could be successfully planned and put into operation on a national scale, no matter how wise the planning, or how great the executive capacity of those in authority. The establishment of a system that will handle, without friction, the resulting millions of experiences, could not be devised except as the experiences of each day taught how to handle the limited volume of business and brought with it knowledge of the best method to cope with an ever-increasing volume.

There exists at this time an organization that has been building for a period of sixteen years, starting with the smallest possible nucleus, in a single market, and extending year by year, market by market, trade by trade, until its connections reach out through the entire country, and the uniformity in method of gathering and distributing information makes simple what would otherwise be a most complex problem.

Take its established chain of offices and watch the process of gathering and distributing information.

We will suppose that a member of this organization has received a large first order from a merchant in some distant city, and before extending the desired

credit wishes to learn how largely this merchant is already indebted for goods purchased and in what manner he has met his obligations with those who are now carrying the account. An inquiry is made at the interchange office, asking for ledger facts of the present date. Consultation of the file at the inquiring office will show not only the confidential number of every local member interested in this particular account, but will show as well the volume of interest in all the other markets of the country and the confidential numbers of the subscribers in those markets who have previously contributed to the general report. Tickets requesting the ledger experiences of the local houses are immediately made out and sent by messenger for reply. Upon the same day this name is passed forward by means of a daily exchange sheet to every market in which the interchange system is established, advising that a revision is being made and that all information obtainable is desired. Each market receiving this request consults its files. Tickets are made out and sent to the members interested and to those in outlying cities also known to have sold this customer. In each market, as request tickets are made out, they are headed with the number of the office revising the report, the date of the sheet and other necessary characters, which, in themselves, indicate, upon the return of the tickets, precisely where they are to be sent for compilation.

In this way thousands of tickets will pass through every office, every day, out to the members and back again, the distribution becoming a simple mechanical operation based upon the series of figures written at the top of each ticket. At the close of each day's business, all information gathered from the members

of every office is distributed and forwarded to the proper centers, and this continues from day to day, until all the information from the ledgers of interested houses has been gathered and forwarded to the inquiring office, to become a part of the report now being compiled. According to the distance of the contributing office from the inquiring center, the delay in all information reaching the point of inquiry may be eight, ten, or even fourteen days where the widest clearance is necessary.

The receiving office does not wait until all the information is in hand before distributing it to members; but will write from time to time the information received. Each subsequent writing contains all that has gone before, the late information being indicated by a special character, so that the credit office need not consider that which they have already had.

At last a final compilation is made and the following system of distribution takes place: The local inquirer is served with his copy of the report as being the party most directly interested; the same day the mails carry forward copies of this report for the files of all interested interchange offices, and a copy for every member whose information is embodied in the compilation. These reports, immediately upon their receipt by the various branch offices, are distributed into the proper boxes for the members interested, and immediately sent by messengers to the credit offices of the contributing members, thereby placing in every credit file the full compilation as nearly as possible at the same time and under precisely the same conditions.

In addition to the labor of gathering trade in-

formation, the party upon whom the report is written is invariably invited to file his signed property statement, which in every case, when received, is made a part of the report, without deduction or without comment. The best verification of the truth of a financial statement may be found in an examination of the merchant's estimate of his own liabilities as against the liabilities shown by the compiled report from the ledgers of the interested creditors who have contributed.

Few clearances, of course, are absolutely complete, for it is not to be supposed that every jobber or manufacturer throughout the country is, or ever will become, a part of the interchange system; but in the making of a signed statement the merchant gives a detailed list of his creditors and the amounts owing to each; these checked back against the items contributed from the ledgers not only show whether the merchant has underestimated his liabilities, but also give a check upon the correct report of the member.

The importance of this subject and its far-reaching future possibilities emphasize the importance of considering all the sources through which this service can be rendered and discovering, if possible, which is calculated to produce the best results.

The future of the interchange business, and it is a great future, lies in the keeping of one of four sources: First, interchange by direct correspondence; second, interchange through the use of the old line agencies; third, organization of credit bureaus by trades; fourth, interchange through some independent corporation, operated under the supervision of ad-

visory boards from various trades, thus insuring acceptable service and reasonable charges.

In consideration of these sources it must be remembered that successful interchange demands three things: First, complete reciprocity whereby the inquirer must evidence his right to inquire through a past credit transaction with, or new order from, the party inquired about; second, that the results of a clearance be submitted only to those who have contributed to the report; third, that every contributor shall receive in exchange for his information the full report as delivered to the inquirer.

We have already discussed the undesirable features of attempting a general interchange through direct correspondence, and if the objections are well founded it would be useless to look to direct correspondence with references as a means for developing the interchange system.

There is a well-founded opposition on the part of a great number of credit men to supply ledger experiences to the old-line mercantile agencies. It is only a fair assumption that were ledger experiences to be given without reserve to the old line agencies their reflection would surely be found in the rating and report, salable to any member who may wish to inquire, irrespective of past or future interest in the account and independent of whether the inquirer had contributed to its make-up.

It is argued that the system of interchange of credit or ledger experiences is of necessity a special line of work and that the information is of a class which should be developed by some institution expressly organized and equipped for such purpose; that the equipment calculated to provide the best general

or antecedent report is not capable of combining with effectiveness both kinds of service.

It seems to me that these two fields of credit reporting are totally separate and distinct and for either side to attempt to cover the other would end in lessened value of the special work in which they are now engaged.

Interchange systems covering single lines of trade seem not especially complex of operation; first, because they are conducted by trades associations with other objects for organization, each object having its particular value to some part of its membership; second, because covering but a single line of trade its membership is necessarily limited and is held together, in part at least, by the influence of the association movement; and, third, because trade terms and seasons are practically alike for all and the demands for clearances at proper times more easily met. Hence the idea has found many advocates and would not be impractical if it were possible to establish the fact that there is no interdependence between the trades; that the expense of maintaining separate bureaus for each trade in every commercial center would not impose a greater burden than could well be borne.

If, however, in all but two or three centers of commerce the number of firms engaged in a given line of business would be insufficient to maintain acceptable bureaus, thereby necessitating clearances through a few distant points and involving aggravating delays and slow service; if, as is undeniably the case, practically every trade is dependent upon a series of other trades in securing even a reasonably complete record of orders and indebtedness of a trader inquired

about; if, as must be admitted, a great element from which information must be obtained is located not in the large cities, but in manufacturing towns often far removed from such cities, then it becomes necessary to supplement the trade bureaus with a central clearing house, greatly adding to an already heavy expense, and presenting difficulties in uniform handling of information which seem almost insurmountable.

Each trade has its specific needs peculiar to itself—difference in terms of sale; difference in time of shipment; difference in relationship between the customer and the seller. If separate bureaus are maintained, they will naturally be operated along lines of greatest value to their own class of business. If a dozen trade bureaus have been organized, each with their own peculiar need and under the management of an efficient board of directors, is it likely that these associations and these boards will cheerfully sink their individual ideas with regard to the manner in which an interchange system should be conducted into the will of a central board control, which would dictate the policy and procedures of all the associations? That which is applicable to one trade is wholly foreign to another, and it is not likely that the board of directors of the clothing association would willingly abandon plans that have been found successful for their trade, simply because the needs of some other association demanded a different kind of treatment and a different co-operation in order to produce successful results.

In different trades orders are passed upon at different times of the year. Uniformity in dates of clearance is vital to the success of an interchange movement. A manufacturer of boots and shoes de-

sires his credit information before he cuts his leather, and must, therefore, have clearances made for him or satisfactory information presented in the months of April and October, respectively, for his fall and spring shipments; while the clothing manufacturer desires his information as nearly as possible about the time of shipment. If the Boot and Shoe Association cleared a name in the month of April, the information acquired at that time is valueless in the month of July, the date when the clothing manufacturer will desire his information. Is it very likely that the Boot and Shoe Association will consent to specially revising a report to satisfy the needs of the Clothing Association, when their own needs have already been satisfied? If not, your report would contain information of various dates, would not show full present indebtedness, and would be almost valueless as a basis for credit-making.

Closely studying the means by which interchange of ledger facts is to be made of greatest general value leads to but one conclusion: Largest efficiency at lowest cost is to be gained through an independent corporation, abundantly capitalized, but whose very existence and success depend upon anticipating the needs of its clients and furnishing every possible means for perfecting its service. It must become in the very nature of things a public institution, commanding the confidence and receiving the support of all communities and all lines of trade which desire to participate in the interchange movement. It will essentially belong to its supporters, but must not be dominated or controlled by any single faction. Its executive board should be composed entirely of men actively engaged in carrying on its work, but there

should be named by interested trades or communities, or both, advisory boards keeping in close touch with the executive control of the corporation, thus utilizing the influence of the organization and enhancing its value in every possible manner.

Results which would follow such a combination of interests would be inestimable. Lines of trade that have never heretofore enjoyed an interchange would seek such a relationship. Lines now possessing such service in a measure would seek to extend their facilities to a broader field. Credit men who have regarded the contents of their ledgers as too precious to share with others would be constrained to recognize that the greatest safety lies in the broadest publicity regarding the transactions of all creditors with a given debtor.

CHAPTER VI

CREDIT INSURANCE—ITS OBJECT AND WORTH

BY T. J. ZIMMERMAN

Credit insurance is the application of the principles of indemnification for losses to the risk incurred in the extension of credit for merchandise sold. In the theory of its present practitioners, it is a guarantee to reimburse a business man for losses sustained from bad debts over and above a certain specified normal amount and within agreed limitations.

In the treatment of this subject, consideration will first be given to the premises on which the idea of credit insurance is based. A description of the plan and method by which it is actually carried out in practice, and a discussion of its merit and value, its deficiencies and weaknesses, as thus practiced, will follow.

The soundness and legitimacy of the general principle of insurance have been established. The foundation underlying all insurance is the same. It is an arrangement by which unexpected and uncomputable burdens and losses are equitably distributed among a large number. An associated group of men affords to each of its members protection against unlooked-for casualties; each must pay for having his risk assumed by the others; the official organization or company is simply the agent to collect the premiums and distribute the losses. All insurance is based on the law of averages. Nothing is so uncertain as the future loss

on a specific risk, nothing so certain as the average future loss on all risks. Insurance is based only on unexpected losses, such as cannot be computed in advance. Thus, insurance on property, called broadly fire insurance, insures against fire and against loss by cyclones, floods and other catastrophes; but it does not insure against regular wear and tear, depreciation or a decrease in the value of goods. Insurance applies only to risks, not to specific circumstances. All possible precautions are of course taken against such unexpected loss; buildings are built as nearly fireproof as possible, and provided with all kinds of appliances for extinguishing fires; regulations are enforced regarding the storing of inflammable material and the operations of dangerous enterprises; efficient fire departments are kept up; care is even taken to guard against incendiarism. Yet risk remains, and while these precautions lower the risk, and hence the cost of protecting the risk, it must be insured against.

Credit insurance has all the earmarks of fire or life insurance. Business operations to-day rest on credit. All credit operations involve a chance of loss, for any exchange of money or goods, in which both parties do not deliver their commodities at the same moment, entails some risk to the party who delivers first.

Now, the business man of to-day, working against the most pressing competition and on a small margin of profit, must know his exact costs and expenses. His cost estimates must be so carefully computed that he can be absolutely certain, if he sells at a certain figure, he will make a certain profit. Other things being equal, his success will then depend on two factors: the accuracy of his cost calculation and his

protection against unexpected losses. His losses can be of two kinds: losses incurred while his goods are still in his possession, that is, by fire—this every business man will guard against by carrying fire insurance; and losses incurred after the goods have left his custody, that is, through bad debts made by extending credit. What more logical than that this risk, too, should be protected by insurance?

In both property and credit loss there is a certain normal which the business man charges into his cost account. Thus, necessary and unavoidable depreciation in buildings and stock is taken into consideration in estimating total expenses, and in this item is included fire insurance premiums. This item will vary with the kind of business and its management, but the merchant knows from his previous year's record exactly what these items will amount to. In the same way there is a certain normal for bad debts, varying little from year to year, depending on the kind of business, the class of customers dealt with, and the perfection of the organization in charge of the credits. This normal loss, averaged from previous years' figures, as unvarying as depreciation, is properly part of the expense of doing business, and must be figured in with total production costs. A certain prefigured normal loss is really not a loss at all; it is not felt in the business; it is expected and provided for like a weekly payroll.

But, in addition to this, business done on credit is always open to unlooked-for excess losses beyond the natural expectancy in the ordinary course of trade, just as it is liable to unexpected property losses. The natural sequence is that this excess loss should be insured against just as is excess loss on a firm's prop-

erty. Fire insurance, then, protects goods when they are in the possession and title of the seller; credit insurance protects them when title and possession have passed to another, without an equivalent having been received. The basis of both kinds of insurance is the same, the law of averages as applied either to fire or to bad debt losses, and the data for both bases are gathered in the same way and from equally reliable sources—they are the general experience and exact average figures of the past combined with specific facts relating to the individual risk under consideration.

The banker who, with \$1,000 to loan, and the choice between a 7 per cent interest with poor security and a 5 per cent interest with gilt-edge security, takes the latter, probably does not realize that he is paying 30 per cent of his possible profit for collateral, and he feels and knows that he is getting value received. Or, putting it in another way, he is paying \$20 a year for insurance on this loan.

The credit insurance company stands in the same relation to the merchant as the indorser does to the banker. Credit insurance affords collateral on every bill of goods sold by a merchant on credit. In sending out a consignment of goods on credit, a house is really loaning money to the amount of the value of the goods; the insurance company puts up the collateral on this loan. Just as an indorser investigates the condition of a man on whose bond he goes, so the credit insurance company investigates the firms on whose credits it affords insurance, except that it does this by a different method.

The plan of credit insurance, therefore, is based on the principle that there is always some loss from

bad debts in every business; that, while in no specific case can the excess loss over this normal be calculated, it can be averaged for the aggregate of a large number of houses, and that, consequently, this excess loss can be insured against.

This is the idea, the principle, of credit insurance, How is it carried into practice? What is the actual method of operation of credit insurance companies of to-day?

When application is made for credit insurance, an underwriter at once takes up the investigation of the risk, just as in fire insurance an underwriter investigates the condition of the property to be insured. Three decisions are to be reached: What sum is to be fixed as the normal loss of this house, above which losses will be indemnified; what is to be the per cent and fixed limit of indemnification, and what is to be the premium per year.

The mercantile agencies have through their long investigations gathered together a mass of reliable and valuable data, relating on the one hand to general facts, on the other to specific business concerns. Such careful statistics of failures have been compiled that the commercial mortality, classified according to different businesses, different localities and different commercial conditions, is as thoroughly understood and tabulated as human mortality or average fire loss. These statistics the insurance underwriters have at hand. In addition, the mercantile agencies can give them specific information regarding the house in question—the general condition of the house, the character of its trade, the class and location of its customers, all bearing on its credit conditions.

Finally, the house itself is investigated from the inside. It must show a schedule of its losses during past years. The books are examined to determine the class of customers, the volume of business, the size of accounts, the terms on which goods are sold, the general credit policy and the run of collections. The real determination of insurance terms depends on these elements of live hazard entering into the policy. From all these facts, the normal loss, the amount of the bond and the premium rate are determined.

For clearness let us cite an imaginary case: The gross sales of a house amount to \$400,000; the normal loss is placed at one-half of 1 per cent, \$2,000; the bond taken out is \$10,000, on which the premium is 4 per cent, \$400. In this case, if the aggregate loss of the house from bad debts is under \$2,000, the firm recovers nothing; any excess loss over \$2,000 up to \$10,000 is recoverable in full, within certain restrictions. These restrictions are regulated by the credit standing and capital of customers to which a firm extends credit. "Rated" customers—that is, those having a capital rating followed by a first or second credit rating—are covered for 100 per cent up to an agreed percentage of their capital; "off-rated," those having a lower rating than the former, or none at all, are covered for only a part of loss sustained through them, up to the same capital percentage.

Such is the present operation of credit insurance. Is it to be recommended for the use of the business man of to-day? Its followers allege many advantages. Credit insurance gives the business man control over his costs; secure through his insurance from excess losses, he need merely add his normal loss and his premium to his

Alleged Advantages of Insurance

other fixed expense items to ascertain the exact production costs. He can thus compute his profits with absolute certainty. The last unknowable hazard is wiped out. He knows his resources exactly and what he can count on, since his book credits, formerly a doubtful quantity, are now a recoverable asset. The certainty and assurance which this condition of affairs gives him allows him to build more securely and farther into the future, and to meet competition fearlessly and aggressively. He can figure more closely, having more certain knowledge of his costs; not having constant worry of bad debts over him, his mind is clearer and cooler.

The inevitable tendency of such a policy will be to increase sales in so far as they emanate from the credit department. Not only will the credit man be able to extend his credits in some directions—not in all, as will be explained—become more fearless and embrace wider opportunities because he has someone with whom to divide responsibilities and losses, but he will worry less and hence be more fit for his work. Once a decision is made, if the credit extended complies with the terms of his bond, the credit man knows he can sustain no loss. And if an unexpected and unavoidable loss falls upon the house, he will not—as often happens—go to the opposite extreme of ultra-conservatism and turn down many good orders.

The insurance policy, rather than making a credit man careless, forces him to keep closer watch of his customers and their accounts, and so tends to better his credit-making, since, to avail himself of the insurance offered, he will live up to the requirement of his bond. He must watch the changes in the capital and credit-making of his customers, for the insurance cov-

erage is based on the latest information concerning these fluctuating items. He must keep close watch of the amount of credit given, as shown by his ledgers, for insurance ceases above a certain sum. The bond thus serves as a guide in making credit. Its requirements will also make him keener on collections, more strenuous in holding customers to prompt payment—in itself a guard against loss—for he may not be able to grant further credit and be protected on it until back bills are paid up. The credit man's eagerness is thus held inside the danger line, and carefulness, the very opposite of recklessness, is induced.

A further curb on the credit man's eagerness is the fact that he always has the endeavor to keep his losses inside the normal amount, for now more than ever will a small percentage of loss redound to his credit, for it will be pure surplus for his house, inasmuch as the normal loss has already been calculated into the cost estimate. And he will not lose sight of the fact that on his present year's record will depend the amount of his future normal loss and premium rate. He will, furthermore, always prefer to collect from the debtor rather than the insurance company, for, as in fire insurance, a loss means much more than the money involved; it carries with it the trade of a customer, a stain on the credit man's record, a black mark against his house.

The value of credit insurance must depend largely on the man; its weak points appear plainly in the very presentation of its advantages. It can be abused much more easily than well used. To a credit man the least inclined to shirk his responsibility or take too long a chance it will prove fatal and against the best interests of his

**Its Weak
Points and
Dangers**

house. The very fact that he is dividing responsibility and putting the possible loss on someone else will make him more lenient in granting credits. The specific facts in regard to a customer which the credit man must watch to keep within the requirement of his bond are not extremely significant; the bookkeeper or office clerks can keep track of them. And a credit man carrying insurance may even disregard them altogether, figuring that he can take the extra chance even though his credit extensions are overstepping the stipulations of his bond. None of the arguments advanced as curbs on the caution of the credit man will stand examination. The credit man's house will not be liable to hold a loss from bad debts against him if it is covered by insurance, provided he can show that he has increased sales by taking this chance. Credit insurance companies themselves are compelled to confess that business men using their policies are apt to try to make money off them. That a high loss one year will raise their future normal loss and premium rate will not be likely to worry credit men. In short, the weak credit man is quite likely to be further weakened by carrying credit insurance and to substitute the security of his bond for good judgment.

It is often questioned if credit insurance, as now conducted, has any value to the strong, able, watchful credit man, and whether it does not constitute a burden on him for the benefit of his weaker brother. Under the present insurance policy the credit man really does not make his own credits, and does not, therefore, make credits on a proper basis. On the one hand, if, hesitating to grant a doubtful credit, he does extend it because the case is covered by his bond,

surely in this case it is not his judgment, but the protection of the bond, that makes the credit. On the other hand, refusing against his own better personal judgment to grant credit because such extension will for some reason not come under his policy requirements, here again it is not he who is making the credit.

If the normal loss of a large firm for a long period of years has averaged a certain percentage of its gross sales, it may well wonder why it should pay out a considerable sum of money to be protected against a loss above this normal, for it is extremely probable that, even though in some one year its losses will exceed this percentage, the average of the next decade will be no higher, and its premium will only be so much additional to be charged to the loss account.

But these arguments are all against the present methods of operation in credit insurance, rather than against the principle itself. It is the methods of credit insurance companies of to-day that have come under criticism; faulty methods due in part, perhaps, to the fact that the movement is still young and that underlying principles and operative methods are still in an unsettled state, but also to what many consider the inherently wrong basis on which they are conducted.

The great trouble with the present methods, and the reason that they have received so little commendation from thinking men, is their generality, a characteristic which destroys almost entirely their analogy to fire insurance. In the latter, the companies do not divide risks into a certain number of classes and place each piece of property insured in one or

What Credit
Insurance
Might Do

the other of these classes, but each risk taken is carefully investigated in itself and special regulations and figures applied to it. The fire insurance company knows exactly what it undertakes in every case. The frequently cited analogy of credit insurance to bank collateral and security can hardly stand; any indorser will carefully investigate each piece of paper he indorses, the character of every man for whom he goes security.

If the credit insurance companies did the same, that is, if, when a credit man was considering the extension of credit to a certain applicant and wished to be secured on the risk, the credit insurance company should come and investigate the risk, determine whether or not it wished to take it, and name a premium rate specific to this one risk, then the insurance would not interfere with the credit making of the credit man or even with his judgment, nor would the insurance company be working in the dark, as it virtually appears to be now. It seems absurd that the insurance company should take the ratings in the rating books as its foundation for operation, ratings which not even the publishers of these books themselves will guarantee, and which every credit man verifies before he accepts.

Much is claimed for credit insurance as a stimulator of confidence in trade and a preventive of panics. Since the wide expansion of credit operations, business prosperity has doubtless been based on confidence in the financial soundness of the debtor classes, confidence in the return of money for goods sold. Confidence is as real and important, although more intangible, a factor in business operations as the banking system itself. Anything, such as the guaranteeing of an ac-

count, which will give to confidence a tangible basis, and will do away with that fecund cause of panics defined by the term, "the bottom dropping out," by preserving confidence and hence credit between seller and buyer, and will thus keep trade stimulated, is to be commended and encouraged. Not only this, but should a depression come, it is claimed its worst effect, losses through outstanding accounts, would be nullified by the indemnification of credit insurance.

Were it wholly true, as an admirer recently eulogized it, "that credit insurance weaves a mesh of tough fiber, confidence, which permeates the entire crystallized structure of our commercial body, giving greater strength and cohesion to withstand a strain," then it might unqualifiedly be called a public institution working for the public good. But a panic is what the name signifies. It would be just as easy for the business world and the individual creditor to lose confidence in the resources of the insurance company itself, as it now is to lose confidence in the debtor, and the resultant crash would be infinitely worse. For, since credit operations would become even more extended under a credit insurance regime, the liquidation following a possible loss of confidence would be correspondingly greater. Considering that losses from bad debts in the last decade have approximated two billion dollars, to realize such an ideal as that painted in the statement quoted would require an institution of almost incredible capital, power and prestige.

CHAPTER VII

CREDIT DEPARTMENT CORRESPONDENCE

BY NAHUM M. TRIBOU

Late of Longley, Low & Alexander

Letter-writing as applied to mercantile, as well as educational and social pursuits, may be an art. The limit of possibility in this direction has never been reached, nor will it be so long as we approach the individual through this medium in the endeavor to change his opinions or thoroughly imbue his mind with favorable impressions already made. My observation has always been that too little attention is given to this, the most important branch (after the capital has been supplied) in almost every business organization

A prospective customer should know of us first through this medium, and, when he becomes a customer, never be allowed to forget that he has personal consideration in this manner as often as mutual interests can be served. Many houses never write their customers (with a few exceptions) unless it be a reply to a mail order that they are unable to fill in part or in whole. The main order is taken by a road salesman, and, when sent in, is acknowledged by a postal card. The next reminder that they are customers is a receipt of an invoice for the goods, and if they pay their bill before the credit man gets a

chance to say "Please remit," the whole transaction is completed without a single letter, much less having engendered a friendly feeling.

My idea is that a customer should receive a letter as often as circumstances and good taste will permit.

The Writer's Attitude and Duties The mental attitude of the writer should be that of a promoter of a mutual interest, an enhancer of a value yet undetermined. He should be a man of rare discretion; should familiarize himself with the traits and character of the customer and feel that he is before him, framing a reply to be given as soon as the letter is finished.

The customer's mental caliber, so far as it is ascertainable, should be well taken into consideration, and the letter should avoid the appearance of form, or the attempt to impress the recipient with loftiness in a literary production. We should put ourselves in the customer's place and keep in our minds his relation to us, as well as our relation to him. More harm may be done by an ill-constructed letter than can be remedied by a tactful salesman in a year. The good physical condition of the correspondent is of most importance, for without it a favorable mental condition is impossible. A well-known author was once asked what preparation he made in beginning to write a book. He replied, "A good horse and saddle to regulate my liver."

A high state of mentality at all times is out of the question, because the best balanced minds fluctuate and powers of impression vary from day to day, even from hour to hour, but strict observance of the laws of nature is conducive to a state of mind from which emanate thoughts of the clearer, higher order,

which, transmitted through the medium of a letter, are bound to reflect credit and inspire the recipient of a letter with confidence in and respect for the opinions. Flattery is permissible only in the hands of the most astute and should be used only in very rare cases, and then only that flattery which appeals to the intellect or higher self, instead of that which appeals to the vanity and other weaknesses.

We should take sufficient time to carefully read the letters which we receive, that we may fully comprehend their meaning. Unless a letter of contract, the effect that it is intended to have on us is what we should receive. Business is transacted in too much haste, particularly so in the city. Our gauge indicates too high pressure, which is a heavy tax on the machinery. It may show great volume at the end of the fiscal year, but perhaps not the desired margin, which is the result. A reply to an inquiry once read, "Note good for any amount;" it should have read, "Not good for any amount," but the error was discovered too late.

It requires the time of one individual in some houses to investigate errors and write long explanatory letters of apology. Independent of the expense, who can estimate the saving if this were not necessary? As soon as a house gains the reputation with a customer of making errors frequently, that customer is in good condition to listen attentively to a competitor. I do not pose as a pessimist; we all know that there are houses which conduct their affairs in an enviable manner, increase their volume of business each successive year, with their losses through errors infinitesimal, but therein is the practical proof of my

argument. What man has done, man can do again and better.

The treatment of salesmen while on the road is a subject for deepest consideration, and those who have experienced the vicissitudes of their occupation can best appreciate the truth of this assertion. The result of their efforts depends largely upon the state of their mind, which may be greatly affected by the character and tone of the letters which they receive from the house. They may have a great many things to contend with, and if the best results are to be obtained from the territory which they are covering, they should have all the assistance possible, and at a time when it will do the most good. Every single inquiry made by them in regard to the business should be answered by return mail, even if some of them appear to us entirely uncalled for. Every correspondent, in fact, is entitled to an acknowledgement, at least, the day his letter is received, even though the answer must be delayed.

There is no greater abuse in the office of the manufacturer or wholesaler than the form letter. It is intended to use them applicably, but they, **Personal**
Versus Form are not so used in such a large percent-
Letters age, that the harm, when misapplied, in a measure offsets the good effect. I refer now to letters mailed in anticipation of the salesman's visit, or letters sent out on receipt of an order, intending to have the effect of having been framed exclusively for the benefit of the individual. If they are gotten up so there are no contradictions, they are so palpably "general" that those customers of ripe judgment and mature experience, whom we are most anxious to impress favorably, see at once the intended subterfuge.

I would prefer a circular letter that is undeniably a general letter, or a personal letter, from which the recipient knows that he and he only was in the mind of the writer when it was framed. When you discover that you are reading a form letter, your first inclination (unless you already have reason to think that there is something of interest in it for you) is to stop and throw it into the waste basket; there is a symptom of the sensation you experience in finding the name of a proprietary medicine at the end of a long and interesting article on hygiene.

I am told of a credit manager in one of the larger Western cities who uses fourteen successive forms seven days apart in making collections before the account goes to the attorney. A delinquent who needs the time and is willing to take it would settle back in peace of mind about the time he had received the second form, after he had once been "through the mill."

In dictating a great many letters each day, it is almost impossible to avoid repeating expressions, but one should not indulge in pet phrases. The ring of originality should be patent to the writer if he would avoid stereotypedness, and thus the subtle flattery to the recipient—our attention this day to you—is attained.

A theory is being advanced as new along the lines of psychology in business correspondence; it is **Psychology in Business Cor-** as old as business itself. We are all **psychologists** intuitively, just as far **respondence** as our intellects will carry us. A Yankee horse-trader, if he were a good one, offered to the mind of his subject progressive suggestions from the time he attempted to create in his mind a

greedy desire to get sight of his horse, until he made him think that it was not only the cheapest piece of horse flesh he had ever beheld for the money, but that it would, under its new environments, increase in value one hundred per cent. Just so in our business correspondence; we appeal to the intellect if we have ourselves intellect, inspiring the prospective customer with confidence in our ability and desire to be of benefit to him. When that has been accomplished, he wants to buy goods of us.

For obvious reasons, many of the best houses have in recent years added a department for special correspondence with the trade, assisting the salesman by anticipating his visit to the regular customer, but more particularly for the purpose of working up new business through personal correspondence with merchants whom they have never had on the ledger. This, of course, requires a great deal of preliminary work in learning the names of the merchants and some good peculiarities regarding their business or business methods, that they may intelligently frame a letter which will indicate to them a knowledge of their affairs; not financial, for that is understood and must be determined upon before they are put upon the "list," but others of which they are equally proud.

This may sound theoretical, but any proposition sounds theoretical to the firm that denotes additional expense, or to the employe, if it means more work, until it has been tried and proved otherwise. The older plans of general, circular and catalog advertising are still adhered to (particularly the latter), and have their places, but the personal letter, after careful and

judicious preparation, is to-day an essential feature of the modern mercantile house.

I desire to say incidentally that many salesmen, as it applies to their regular customers, strenuously object to this plan of what they call "superfluous letters from the house," believing that, if the house lends its assistance in holding the customer and selling him, their personal interests are jeopardized. This, however, is sophistry, for if they cannot, in personal contact with the customer, hold their own, they are neither broad nor adroit. One may employ all the subtle subterfuges known to human ingenuity in writing and make no very lasting impression as compared with the personal interviewer, other influences being equal.

It requires tenacity of purpose to write a prospective customer two or three times a season, year after year, getting, perhaps, nothing but a civil note in evidence that the time is not come when the "wedge may be put in;" and not doing business with him, we cannot fairly know how he feels toward our competitor from whom he is buying; therefore, as the unexpected always happens, we little realize as we, perhaps for the tenth time, write him a courteous letter, describing to him some of the new things which the salesman of that territory has wisely decided will prove a valuable acquisition to his stock, that our opportunity has arrived. It is possible that he is stronger financially than when we first attempted to sell him and that his business has grown to much larger proportions; if so, by our continued cultivation of the men we have an additional margin in the profit of our correspondence any way we figure it, and when we first sell him we receive the dividends accrued, as

our bills are larger than they would have been had we opened the account at the date of our first letter.

It is a characteristic of human nature that we must have what we want until we get possession, when our ardor cools and the tendency is toward neglect. This is true of our attitude towards our customers, unless we take every precaution and guard ourselves against getting into the very wide rut—carelessness. A properly arranged department for correspondence is its greatest preventive. The name comes up periodically for a letter of such and such a character, and we are thus stimulated to put new life into each particular case.

The manufacturer or wholesaler is a silent partner of the retailer to the extent that the credit given to the latter is to his total assets and liabilities, and as we encourage or discourage him through our correspondence, so we must reap the benefits or disappointments. Hastily written letters in making collections, striving to “get out first,” have not infrequently precipitated failures, just as carefully constructed letters, after studious consideration of all the circumstances, have avoided catastrophes.

CHAPTER VIII

CREDITS AND COLLECTIONS IN A WHOLESALE HOUSE

By EDWARD M. SKINNER
General Manager, Wilson Brothers

Ex-President, Chicago Credit Men's Association

Credit is the name given to that business operation by which delivery of money, merchandise or other consideration is made on the promise of future payment. Credit is based on confidence; confidence in a man's resources and ability to pay, in his character and integrity; confidence in the stability of the locality in which he conducts his business, in the country itself; confidence in the strength of its government and the soundness of its finances. Credit-making is an estimate or opinion of the ability and intention of business men to carry out their business contracts, and of future commercial conditions. The man who pays cash uses the profits made from past business conditions; the man who buys on credit anticipates the profits of the future; hence the man who sells on credit must foresee the business conditions which are to bring these profits.

Credit-making can no longer be done on the old mathematical basis, nor with the old sweat-box methods. The scope of credit operations has so widened, credit-giving and credit-taking have become so common, that no man is so weak that he must stand brutal inquisitorial questionings into his most

private affairs, no house so strong that it can afford to have an openly cold-blooded and harsh man in its credit department, who will antagonize customers and repulse trade. The object of the credit man is in the main that of the whole selling end of a business: to sell goods at a profit. If he cannot sell a man goods to-day because he cannot extend him credit, he must remember that this man may be in such condition to-morrow that credit can safely be extended him, and he must rule his conduct accordingly.

The credit man comes into more intimate contact with the customers of a house than any other man, his relations are most delicate, he touches a man where he is most sensitive—on the question of his character and his ability. He must pre-eminently be a man who can handle people, who can reach their real selves. Anyone can get information of a certain kind by asking direct questions in a direct way and putting them down in a cold, unfeeling manner, with a “I-know-you’re-dishonest-anyway” attitude—working the customer up to such a murderous frame of mind that the least he can do is to refuse to buy if he does get credit. But the man who can talk to a customer pleasantly and interestedly about his affairs and circumstances, getting a fact here and an admission there, until he has all the information he wants, without a direct question, will secure more complete and reliable facts than those obtained by a brutal straightforward examination, and will add a friend and perhaps a customer to the house. Even if credit cannot be extended, the customer should be so handled that he will leave the office in a pleasant frame of mind. This is all a mere question of at-

titude and tact. It is due, not to increasing competition between houses, but to the development of greater kindliness, smoothness and tact in the outward show, at least, of business relations.

This more human attitude on the part of the credit man is of even greater importance when it is a question of handling a customer who is in the debt of the house and has gotten into difficulties. Many an account can be saved by tactful, though always firm, treatment; more than this, many a business man or house can be saved to its debtor and to itself by a policy of advice and co-operation—real and substantial—instead of a policy of suspicion and attack. When a debtor house reaches this point, everything depends on the attitude and action of the credit man.

The attitude which a credit man should assume is really a result of the object which he sets before himself. His purpose is to sell all the goods he can, at the least possible loss, with the least possible expense, and with the least percentage of orders declined. It is easy for the credit man to show at the end of the year a loss of only one-tenth of one per cent—if he makes his credits that way. When the head of a concern receives his credit man's report, he should also ask for a statement of the number and value of orders declined. It is a very easy task to turn down orders; it is simple to keep the percentage of loss down if no chances are taken. The question for consideration is not only how little money did the credit man lose through bad debts, but also how much did he lose in orders rejected; how many prospective customers did he kill for all future sales; how many present customers did he offend or lose;

how much expense put into securing orders did he nullify?

Of course, if a credit man's judgment tells him that it is unsafe to extend credit, he should refuse to grant it. But it is a far cry from refusing credit to losing an order or a customer. If he does not believe it advisable to grant credit, the credit man should try to fill the order on some other basis. He may be able to ship the goods under some guarantee of payment; perhaps he can get the buyer to pay cash in part at least; by working in conjunction with the salesman through whom the order has come, some satisfactory arrangement can often be made. If the credit man explains to the customer fully and in a tactful manner why he must refuse credit, expresses a desire to keep the account, and asks him whether he cannot suggest some other basis on which the goods can be shipped him, he may even receive the co-operation of the customer in making mutually satisfactory arrangements. Thus, keeping in touch with this man, the credit man, by advising and helping in his growth, may gradually bring his account to a point where it can be put on a credit basis.

Even though a credit man does not see his way clear to opening a credit account with an applicant, the full reasons can be put to him in such a light, his own condition can be so analyzed to him, the attitude of the house can be so laid before him, that he will go away knowing the credit man is right—and he will come back again. Instead of saying, when credit is refused him, "I'll be hanged before I ever trade with that house," he will say to himself, "I'll show that house that I am worthy of credit from them." To make such an impression requires tact in

handling men, and the greatest compliment which can be paid a credit man is to have a man to whom credit has been denied come back later.

The exact balance to be kept between sales and safety is in large degree a matter of house policy.

The Credit Man Who Excels It depends on the kind of business in which the firm is engaged, the class of its customers and the margin of its profits. Some houses cannot afford to run a risk; others figure it will pay them to take chances, not in an irresponsible manner, but with eyes open and after careful consideration. It is comparatively easy to judge whether a man is really entitled to credit; when to take a chance is the question whose decision requires experience and careful consideration.

Losses come in taking chances—so does volume of sales. That credit man excels who, taking what looks like a long chance, by such mental means and systematic methods as he possesses shortens the chance and brings it to the point of safety.

That the person who can do this must be born with such abilities is a convenient belief for the man who fails to attain such excellence. The fact is that a credit man is made much more than he is born—he is made by learning the rudiments of business thoroughly, by studying men, their strength and weaknesses, by allowing his experience to teach him. The good credit man carries consideration for other people; his manners are pleasing. The methods he uses are quiet methods. He has a definite knowledge and a thorough grasp of the business of his house and of his work in it. Opinions he has—but he expresses them only when necessity demands, and then firmly. In short, the good credit man's qualities are

the same as those of any good business man. If he is a good credit man, it is safe to assume that he would have been just as successful in some other department of business.

The particular knowledge and training required for his peculiar work he must also have; but, given these general traits, he can acquire that. He must have a wide knowledge of business affairs and commercial conditions; it can be acquired. Familiarity with the laws and customs of many different localities is a great help to him; he can learn them. He must have experience, not so much in credit-making as in general business activities; he can gain it. As far as that is concerned, if the credit man makes each credit as it comes up on a sound and safe basis, he need not worry about general or local conditions. It is only the poor credits, the careless and doubtful extensions, that suffer when a commercial squeeze comes—and then they are past worrying about. And this is a good opportunity for saying that the time to do worrying is before the goods are shipped, when the credit is in the process of making. Such worry is legitimate worrying. Worrying afterward, when the goods are beyond reach in the hands of the debtor, is only detrimental; it hurts the work of the credit man and unfits him for his responsibilities.

The basis for credit, the information in accordance with which the credit man forms his judgment, differs according to different factors. The location of a business house, the kind of goods it carries, the general character of its trade, the particular form of credit it ordinarily extends—all these modify the kind of information wanted, so that it would be futile

**Basis for
Credit
Judgment**

to attempt to set down even in general the facts used in making credit judgments. Credit men themselves vary as to the particular facts they desire and find useful. Each puts emphasis on different points and facts as his experience dictates; one lays stress on character, another on ability, a third on past experience; this one considers especially the amount of capital, that one the volume of sales.

No better statement of the essential information needed to judge of the advisability of extending credit could be made than this, quoted from Mr. Horace C. Bennett: "The bases for commercial credit are ability, integrity (absolutely essential), and property (not necessarily essential), and the truth regarding these is what the trade wants.

"Ability is measured by age, health, business experience, education, income by personal effort. The evidence of integrity is business and social honor, personal deportment, character of associates and reputation. We mean by property that which can be taken under an execution and, whether personally acquired or inherited, qualified by income and net wealth."

While tangible assets are the chief basis for the extension of credits, yet it can be stated absolutely—and it is an agreeable evidence of the large part which the human element, man himself, plays in the more or less sordid operations of business—that the rock bottom foundation upon which the whole system of credit is based is character. Those characteristics of the man himself most significant to the credit man are rightfully identical with the most essential elements for success in any man: honesty, good habits, ability, industry, economy and care in the conduct

of business. Of these rightful assets none can be levied upon by law, but just as a man cannot attain success without them, so a credit man cannot give credit to a merchant lacking them. In fact, if a credit man could be absolutely sure of an applicant's honesty, all other considerations might safely be eliminated. Not that honest men never fail, for they often lack ability and other essentials, but as between the man with large resources and doubtful honesty, and the honest but financially weak man, the latter is entitled to credit, and to the former confidence should be denied.

A very significant fact, very often if not generally overlooked by a credit man in judging of a customer's title to confidence, is the volume of his sales, the amount of his expenses, and the relation between the two. It is not the amount of capital which a man has in his business, so much as the frequency with which he turns his capital over, that affords an insight into his real ability and the actual condition of his business, that shows up the true color of his affairs and indicates the healthiness of his trade. The amount of his expenses is a true index of his business management. These two figures give the closest line on a merchant's situation. No financial report is, therefore, complete without a statement of sales and expenses.

A credit man should get all information possible regarding a customer. The first source of information, as being the easiest and quickest of access, is the rate books of the large commercial agencies, where can be found the capital and credit rating of every merchant. The next most common source of information is spe-

cial reports from these agencies, which give detailed statements of the character, resources and situation of a business man. These reports are of value, for they give certain definite data and specific facts, and sometimes include a sworn and signed statement from the man investigated. But these reports are rarely fresh, they are revised confessedly only twice a year, and then undergo a process of rehashing rather than revising. The service of these agencies is improving, but only in the same ratio as its clients demand. Never in my experience has a request for a report from an agency failed to bring one forth, whether the agency had anything new to report or not. That this is a mistake in business policy as well as bad business principle is evident. The client pays for this information and should receive something of value in return. If an agency has no new or fresh information concerning a merchant the second time a client asks for information upon him, they ought openly to acknowledge it, instead of trying to pass off some old stuff in a new form.

Local attorneys and banks can be put to very good use as commercial reporters, and are a valuable instrument to the credit man if used properly. But the practice of obtaining information from them gratuitously is a mistake. The laborer is worthy of his hire. Better returns are bound to come if the labor is paid, for, even though local attorneys are in the habit of rendering such service gratis in the hope and expectation of receiving collection work from the houses they serve, they will, naturally and conscientiously, put more care and work upon a report for which they are receiving direct payment.

Attorneys can give the latest information and

the most intimate facts, for they are familiar with local conditions, they are on the spot and get their information first hand, and they are often in personal touch with the subject of the inquiry.

The value of the information to be obtained from banks depends much on the way they are approached. A clever correspondent, who presents his case as a business proposition and is candid in regard to what he wants, at the same time offering compensation and not expecting the bank to waste its time, can secure very good service. It is well when banks are used to make inquiry from several in the same town, so as to avoid getting a single report from the customer's own bank, the value of whose information and point of view would be doubtful, to say the least. Bankers are the highest grade merchants in the country; high grade reports can justly be expected from them; and usually, when they do give information, it can be relied upon.

The "credit clearing house" is one of the best instruments in the determination of credits in those lines of business represented by it. It does not duplicate the agency and other reports, but is supplementary to them. It reports only figures and facts, and really gives to a membership house access to the ledger account of the customer under investigation with every member having the account. As the system is described in detail in another chapter, it need not be enlarged upon here.

Salesmen afford a valuable source of information, if the credit man will take the trouble to educate them to the observation and collection of the kind of information he desires. It can hardly be expected that

the good salesman will also be a good credit man—especially in the same transaction. It is not human nature; the two activities are along different lines, and, especially when applied to the same transaction, pull in opposite directions. But salesmen can be made valuable adjuncts to the credit department if the credit man has the tact to arouse a co-operative interest among them. To do this he must convince them that he is trying as hard as they to ship goods. He must show that he is willing to be educated along their lines, that he will do his part. Then they will reciprocate.

No two departments of a house should work in closer co-operation or more harmonious relation than these, for the success of one is essential to the success of the other, and a mutual enjoyment of each other's experience and knowledge tends to the success of both, and hence to the profit of the house itself. No greater weakness can be pointed out in a credit department than a failure to build up cordial relations with salesmen and to secure and make use of the store of first-hand information regarding actual facts and conditions which they possess.

Once credit has been granted and a new account opened, the work of the credit man has only begun.

To Keep in Touch With Accounts He must not only watch each account, keep track of the amount due and overdue, the promptness in paying, the size of the orders—all of which he can learn from constant study of his ledger pages—but he must also watch each customer and his general condition, which is subject to constant and often rapid change. This

he must learn from special reports, from salesmen, and from personal interviews.

This part of a credit man's work is responsible for the fact that he is generally the head office man, in charge of the bookkeeping department and the collections. From the bookkeeping and collection records only can the credit man know how much each customer owes, how much he buys, and how much he pays. It is necessary, therefore, not only that he have constant access to the books and records, but also that he have control of the methods in which they are kept, in order that they may fit into his general system.

He must also keep in touch with the sales department of the home office, for he should know what profit the various kinds of goods bear. A house can afford to take a longer chance on an order carrying a large profit than on one in which the margin of profit is very small, a default in whose payment would mean almost a total dead loss.

Every credit man, aside from the information he obtains regarding customers from various sources at the time of deciding on the shipment of specific orders, should revise his information on his active customers regularly twice a year, each season before he ships goods. This serves to keep him in touch with all his customers and their accounts, even those whom he considers absolutely beyond suspicion; it rearranges and revivifies the facts he has stored in his memory, and his records are kept fresh and up-to-date.

Personal touch between credit man and customer should be a valuable factor in the making of credits. If it is not, if the hold of the house on the customer

is weakened by such personal contact, it reflects greatly on the merits of the credit man. It depends entirely on the personality of the credit man as to whether a personal interview with his customers is going to be of value to him in judging of their condition, and of value to the house through the favorable impression made on the customers by the credit man. It all goes back to the question—has the credit man that most important qualification of any business man, tact, ability to handle men?

The fact on the one hand that the credit man must know about payments of bills in order to pass on orders, and that he alone has the intricate knowledge of customers which will indicate how to handle accounts for collection, naturally places the collection department under his control.

A credit man, to be successful, must be a good collection manager, a good collector. He must know that prompt collection of accounts is more than half the game in keeping the percentage of losses down, and he must know how to educate his customers into prompt payers of their own volition. Customers who are perfectly good are often as slow in remitting as the more doubtful. The collection department should be strict with all alike; it should be after a debtor the minute a bill is due, no matter how good he is, and stick to him until the indebtedness is paid. A house which is a prompt collector and shows its customers thereby that their accounts, which constitute its business, are watched will command more respect than the careless house, and will invariably be paid first.

This does not mean that annoying or offensive

methods need be resorted to by a house the moment a bill is overdue. A statement before the account is due, marked with some excusatory phrase, as "For Correction," may be followed by a second statement for a reminder. After a reasonable length of time has elapsed, sight draft may be made on the debtor. This is no such infallible method now as it once was, when dishonor of a sight draft was a confession of insolvency. A sight draft has lost all its terror, and a merchant thinks no more of refusing to meet it than he does of putting off the payment of an ordinary bill. The change has come about gradually and is the fault of the creditor class; in this, as in many other phases of collections, they have been and still are too lenient.

If a draft is returned dishonored, the handling of the account from this point on depends entirely on the credit man's methods and the nature of the customer, and no one course of procedure can be laid down as the correct one to use in all cases, nor would all agree on the handling of a single given case. Credit clearing drafts are very effective, because if such a draft is dishonored the merchant knows that this fact is going to be communicated to all the members of the credit clearing association, upon whom he must depend for his supplies, and he is only too well aware of how seriously this will impair his credit. A collection agency draft is similarly efficacious. It is often well, in working on stubborn collections, to call the debtor's attention to the fact that he is hurting his credit, for there he is touched in a vital and sensitive spot.

Great conservatism should be practised in the policy of granting extensions. Good and substantial

reasons, personal or local, should be demanded from the debtor to account for delay in payments before extensions are granted, and a thorough knowledge of his condition required. If more time is given, the creditor should seek to keep in closest touch with the debtor and his affairs.

Sharpness and quick action are necessary when a debtor fails both to pay his account and to give any satisfactory reason for his delay in paying, after repeated letters from the creditor have admonished him. If the debtor only knew it, the credit man is the one person to whom he should unburden himself under such circumstances, for he is generally as worried over the account as the debtor himself and as anxious to settle it, and is ready to meet him halfway. A credit man will never "turn down" a man who tells him the truth, and will always do his best to arrange a satisfactory settlement. If such a customer but appreciated the liberal feeling of the credit department toward him, and would simply write to the credit man when his bills mature and he is unable to make payment, and would make some definite arrangement for the payment of the account, he would be surprised to find how easy it would be made for him. The credit man always wants to help the honest debtor if he can; if the debtor will not let him, he is helpless. If he makes an offer and the debtor pays no attention to it, the credit man is at the end of his string. A customer ought never to feel that, because his bills are past due and he is unable to pay them, he will fail to meet consideration at the hands of the credit man. The worse the condition he is in, the more anxious the credit man is to help him, for he cannot

get his own money without helping the debtor. This may be a selfish motive, but for that very reason it is a powerful one.

In all his efforts at collection the credit man should never give offense; let him throw the tuft of grass first, just to call the debtor's attention to what may come. If this does not work, the credit man may give him the rock—but only as a last resort, for stringent methods, the collection of an account by legal means, will surely mean the loss of the customer in question. This is inevitable for three reasons: The credit man will always suspect, and justly, such a customer, for nowadays a man must treat his account pretty badly to have it put into an attorney's hands, and so he will hesitate to extend him credit again. Second, this will be a good account to drop anyway, for a man who has been sued by a creditor usually treasures it up against him and will take a joy in sticking him if ever opportunity offers. Third, the customer will very rarely himself come back to trade with a house which has sued him.

Never to compromise an account seems to me a poor policy for any house to adopt. The usual and fairest and most satisfactory method in the case of an insolvent debtor is for the smaller creditors to accept any percentage or other settlement thought fair and just by the larger creditors. The latter, having most at stake, will always investigate thoroughly and can be depended upon to make the best possible terms. It is fairest for all houses to be thus guided by the desires of the larger creditors, for it is a reciprocal arrangement.

The most frequent source of commercial losses is probably the giving of too long a line of credit

to small new merchants because of a fear that a competitor may get the order. The larger proportion of a credit man's losses comes from carelessness; that is, not from bad judgment in granting credit, but from negligence and hastiness in extending that credit to further and larger orders without keeping in touch with the account and verifying his information on the customer. The account once opened, the busy credit man, getting the name of the customer in his mind, passes future orders through and allows the account to increase without proper knowledge and consideration.

CHAPTER IX

CREDITS AND COLLECTIONS IN A MANUFACTURING HOUSE

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In a consideration of the subject of the management of credits and collections in a manufacturing house, it will be found that the problems involved and the methods used are much the same as those of a wholesale house, for the tendency is growing stronger for the manufacturing house to deal directly with the retailer, and even the large consumer, without the intervention of the jobber. But even though we look upon the manufacturer as one who deals with the jobber, and the wholesaler as one who deals with the retailer direct, there would be very little difference in their methods of conducting credits, for the same care must be exercised in extending credit to a large, well-known jobber as to a small, unknown retailer. The only difference is that the jobber's account is many times as large as the retailer's and hence requires many times the care and often involves many times the worry that a smaller account does. The source of information, the method of gathering it, and the consideration of it, are the same in the two cases.

It is in the attitude he takes, the object he has in view, his general policy, that the credit man of a manufacturing house differs widely from the credit man

of a jobbing house. The manufacturer works nationally and even internationally, the jobber locally. The manufacturer hails with delight an order from a far corner of the country; the jobber will look upon it with suspicion. The jobber has a particular territory in which he sells, which he tries to cover thoroughly, and he must sell to almost any one of any standing in his territory; the manufacturer need not sell indiscriminately, he merely takes the cream of the retail trade, the big retailers who stand head and shoulders above their competitors and whom it is to his advantage to have on his list of representatives. He can, in a way, choose his own customers, selecting the best, and still dealing with the poorer risks through a middleman. The credit man, by simply referring the latter to a jobber, can refuse credit without appearing to do so.

There is, however, another consideration which sometimes compels the manufacturer to assume an extraordinary risk. A jobber carries various lines of goods. He simply wishes to do a certain volume of business in a certain territory. If he can do this volume of business in eight cities of a territory in which there are twelve, he will let the other four go. A manufacturer is usually putting out an advertised line of goods, and he desires to be represented, broadly speaking, everywhere. He cannot afford to pass over one large commercial center, for, having by his advertising created a demand, there is possibility of loss in failing to supply the demand and danger to his reputation by not offering facilities by which people can secure his goods. Thus, the credit man of a manufacturing house, in order that his goods may be on

How
Credits
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sale in a certain town or district, is often compelled to take more dangerous risks to accomplish this object than a jobber would ever take.

To demonstrate: A manufacturing house often has a new line of goods which it wishes to introduce. To do this, it must be willing to take extraordinary credit risks. The manufacturing house is the pusher of the goods, and often places them merely for the advertising effect. It is never the purpose of a jobbing house to merely get goods before the public. Its purpose is always to sell a staple with the required margin of profit.

A credit man of a manufacturing house must always keep a watchful eye on the stock, for in some lines of trade the goods left over at the end of the season are so much dead loss. One of his objects must be to distribute the sale of goods in such a way that at no time will the bulk of credit be in any one district, and that at no time will the bulk of sales be segregated in a particular period of the year and so conflict with a systematic, even output of the factory. This, again, is more the duty of the sales department, and yet the credit man can render marked aid. In most manufacturing business there are one or two seasons of the year when the consumers' demand is particularly heavy. The retailer will be most inclined to lay in a stock of goods just before these seasons begin. I need hardly make the point that a factory whose output is evenly distributed over the twelve months of the year will have a much lower production cost per unit than if the output is crowded into one or two periods of three months each. Now, by making the terms of payment to the jobber and retailer longer, a credit man can secure orders several months before

the consumer's demand begins. And if there be an understanding between the credit man and the sales department, by which the salesmen will secure such orders from the best customers of the house, the credit man can make his terms of payment such that customers will suffer no disadvantage through early ordering.

In his direct relation with the sales department, the credit man should look upon it as he does upon the jobber. It is merely a selling agent, **Relation of Other Department-ments** and must be watched in the same way as a jobber as to terms, discounts, and prices. The credit man must really act as a tail upon the over-zealous sales kite. He should be the watch dog of the treasury. Whether it confesses it or not, the object of the sales department is to sell as many goods as it can smuggle through the credit department, and the credit man must realize this.

But the most fatal thing for a business is lack of complete harmony, good understanding and co-operation between the credit and sales department. The credit man's object is, just as much as the sales department's, increase in the volume of the sales, but he adds the saving clause, "with the lowest percentage of loss and with the least expenditure of money." As will appear in the course of this discussion, the salesmen can be of much help to the credit man in his own work, and he cannot afford, under any consideration, to be on anything but the most friendly, harmonious and co-operative basis with them.

The relation of the credit man to the advertising department should also be close. He should always be broad enough to see that anything which conduces to advertising goods and to giving the public a good

impression is worth while trying. He must often sell merely for the sake of being represented in a locality. Therefore he should be in close touch with the advertising department, in order to know what goods to push, and on what goods to take risks for the sake of publicity. For these reasons, he should have something to say in regard to the advertising policy of the house.

In the promotion which is done through correspondence and other means from the home office, the credit man should have an influential part. There can be no profit in promoting business with a dangerous credit risk. The credit department should have in its hands the classification of the firms which the promoting department is trying to interest.

The credit man should be the head of the book-keeping department, at least so far as the accounting methods and treatment of customers are concerned. He is the most familiar with customers, and comes in closest touch with their accounts. The accounting methods should conform to his needs and to his policy of handling customers. With salesmen's records and purely financial records he need have no direct connection.

The knowledge which the credit man of a manufacturing house should have is of three distinct kinds. **Knowledge Necessary to** In the first place, he should have knowledge of business operations and a **Credit Man** general understanding of financial conditions all over the country. Inasmuch as the business of a manufacturing house is national, the credit man should know the condition of the whole country and the commercial districts into which it divides itself. Very often one section of the country is under-

going an industrial depression, while another is enjoying boom times. He should be able to analyze such financial conditions and to apply them to the protection or furtherance of his business.

In the second place, a credit man should have a thorough understanding of the actual manufacturing and operative details of his own business. He should know the value of goods, the margin of profit and the stock on hand. He can afford to take a longer chance on goods which show a large margin. He should be able to estimate the amount of an order without having to look up each item; if he were compelled to do this, his day would need to be three times as long as it is.

The very best man for any credit department is one who has grown up with the business. More than any other executive, the credit man should know the history, circumstances and possibilities of all its customers and accounts and the policy and purposes of his house. This he can only learn by long contact with them in the bookkeeping and collection departments, and by an understanding, through experience, of the relation of the house to its customers.

In the third place, a credit man should have some knowledge of the management and operation of any line of business in which his particular customers are engaged, even though the goods which his house sells may consist of the smallest part of the customers' stock. A manufacturing house may sell the hardware man, the general storekeeper, the business specializing in its one line only, the manufacturer, and direct to the customer. The credit man must gauge the credit to which a customer is entitled in proportion to the ratio which his goods bear to the

whole business. That is, if a buyer's credit line is \$10,000, and my goods will be only one-tenth of that stock, he is not entitled to more than \$1,000 worth of credit from me, for very probably he will receive at least \$9,000 worth from other sources. If each credit man were careful to limit the extension of credit to his proper proportion, there would never be that overbuying on the part of the retailer which is so often the forerunner of insolvency.

If the credit man has this knowledge, not only can he judge credits better, and can extract from the agency reports that come to him the exact condition of the customer's business, but when his relations with a customer have become intimate enough, he can act as an adviser.

The credit man should finally be somewhat of a financier and something of a lawyer. He has his fingers on collections, the incoming money, and on credits, the source of incoming money. Even though he knows that a customer is good for a long line of credit, often the financial condition of his house will not allow of such favors. To work intelligently along this line he must, of course, understand the condition and policy of his house. He must, in fact, have such knowledge that he could, at any time, take over the duties of the treasurer. He must be able to grasp anything pertaining to figures, for it is often from a mass of figures that he has to deduce his conclusions. That he needs a knowledge of the law is evident. Primarily, he should know the law in so far as extending credits and making collections are concerned. Further, not infrequently he has occasion to act as receiver and trustee for an insolvent business, and to

do this, more than an elementary legal knowledge is necessary.

Character, estimated worth, volume of business and expenses—these four attributes are the basis of credit. If a man is lacking or weak in any one of these, experience only will indicate to what extent such an account is desirable. It is not entirely true that such an account is undesirable or unsafe. Character and reputation are perhaps the most important, for an honest man will pay if he has the money, and often if he has not. The dishonest man will seek to evade payment whether he has the money or not. In this connection, it is well to remember that the location of a man's business and his surroundings make a difference in the comparative importance of these four characteristics.

There are, broadly speaking, four sources of information open to the credit man. Agency reports, exchange trade information, local reports, and information from salesmen. The concerted action of all of these is the only systematic and satisfactory way of making credits. The credit man should have all the information obtainable; everything should go into his hopper.

A very important consideration which credit departments often overlook is that information which can be procured without delay is most advantageous. This is especially true in a manufacturing business, where the goods are frequently manufactured after the order has been taken. In passing an order through quickly and getting the goods shipped, the credit department gives no opportunity for canceling or countermanding. The credit department should

never be guilty of handicapping the sales department through delays, for this is one loophole through which a competitor creeps into a customer's favor. It is for the credit man to judge when the need for caution is outweighed by the need for promptness, and whatever way he decides, let him act quickly, for indecision in the credit department is an intolerable fault.

The mercantile agencies perform a necessary function. The betterment of their service lies in the hands of those they serve rather than with themselves. If the patrons want good services, they should help to make them better, and for that reason, if a credit man learns or believes certain individuals a poor risk, he should make this fact known as generally as possible through agencies. This reciprocal relation, if carried out to a larger extent, would greatly simplify and improve conditions for a credit man's work. Competition among agencies themselves will produce better services, and it is good policy for the credit man to encourage such competition. And again, from another point of view, the mere fact that a merchant knows that he is being watched and his condition is known to his creditors influences him to preserve his commercial integrity intact and unstained.

Local attorneys and banks can give first hand information, and, if they are treated fairly, will usually give good service. Their information, however, must be carefully analyzed and should generally be discounted. By this, I do not mean to say that their reports are not the exact truth, but it must be remembered that they are written from a local ultra-

familiar and often partial—whether towards friendliness or hostility—point of view.

Trade information, when it can be secured, affords the surest source for the tangible facts concerning a customer's past credit relations. Good trade information, supplemented by reports from salesmen trained for credit observations, would be an ideal combination for securing information on which to base credit. The objection to interchange information has always been that it is incomplete, for very rarely can all a man's creditors be reached, and it is slow to gather.

The possibilities for securing credit information from salesmen are infinite. I have stated that first hand information is safest and most satisfactory for the credit man. The Salesmen as Credit Reporters salesman is a sure source from which it can be secured in trustworthy form. Mercantile reporters, while of more than ordinary intelligence, are neutral, and therefore get information only which absence of specific interest can secure. The selling force of a house is its sole outside representation—its other image. Not only, therefore, from the point of view of making good sales, but also from the point of view of reputation, it behooves a house to get a high grade of men as salesmen. If it is the policy of the house to do this, or if the credit man will use his influence in the establishing of such a policy, the credit man can easily train these salesmen for use in his department.

He should, to a certain extent, let the salesmen know the policy which he is pursuing, his methods and purposes. He should teach the salesman, in the first place, what kind of information he wants and

why he wants it. He must make the salesman understand what credit information consists of, how a man is to be approached in order to get it. It is possible to get any information desired if the man is approached in the right way, and a good salesman who knows men and human nature can be relied upon to get anything he goes after. If it is made part of a salesman's duty to express his opinion of the risk on each order he gives, and the salesman is given to understand and knows by experience that his judgment is to be a determining factor, he will take pride in making it reliable. It flatters a salesman to know that his opinion is of some weight. The fact should be impressed upon him that this is a part of his work, that a sale is not complete until he has expressed his opinion upon the risk.

A credit interchange system could give the best trade facts regarding a customer; information as to how he has paid his bills in the past, what his credit standing has been. A mercantile agency can give a man's business history and record for a number of years past. The salesman could furnish the rest. Being on the ground, he can denote the standing which the customer occupies in his community, how he is looked upon financially and socially, what his reputation for character and integrity is. He can observe a man's method of managing his business, the character of his patronage and the amount of his stock. Working with the salesman, it is very easy for a credit man to prevent a customer's overbuying, and the salesman should be especially cautioned in regard to this. The salesman, in his periodical visits to his customers, should each time consider it as much a part of his work to inform the credit man of the con-

dition of the customer, of any change for the better or worse which has occurred, as to send in his order to the sales department.

The credit man's object should be to have the salesman as anxious to make a showing in the credit and collection part of the business as in his own sales department. It should be the policy of the house to look upon that salesman as best in whose territory losses are lowest, cancellations are fewest, expenses smallest and general conditions least complicated. Not only can the salesman help the credit department in giving information, but he can also help train a customer to prompt payments. A salesman should never be made a collector, for that will hurt his position as salesman, and possibly militate against his securing orders, but he can in an adroit way compel a customer to see the wisdom of keeping his credit sound by paying promptly and to take pride in keeping his account with the house well in hand.

The credit man should be honest and fair to a customer, whether old or new. When he has come to his decision, especially if it be adverse, **Keeping in Touch With Customers** he should explain to the customer his course of reasoning. Credit men are now attempting—and they are succeeding in their attempt—to eradicate the general idea which the retailing class has had, that the credit department is an arbitrary, cold-blooded institution, whose reasoning is a mystery not to be solved by the uninitiated, and whose conclusions are not to be forecast. If a customer were given to understand why credit is denied him, or on what grounds it is extended, safe credit, and in fact the extension of credit, would advance into a still broader field. "Honesty is the best

policy" is an old aphorism, but many men have yet to learn the business value of honesty and frankness.

A new account opened, the credit man has not disposed of his subject. Not merely a first order, but every succeeding order, requires careful investigation and consideration. The difference is that, while investigation on a first order must be done at one time, specifically, the careful credit man will diligently watch his customers, so that he may pass on succeeding orders without delay. He has, then, not only extraneous information concerning them, but his own experience with them to aid his judgment.

The simplest method for keeping record of a customer is to indicate on his ledger account everything which transpires—not only the purely book-keeping entries, but his peculiarities, his methods of payment, synopsis of reports, and so on.

The frequency with which special reports should be obtained depends upon the customer's line and the condition of his account, but all information should be revised at least once a year, and oftener when the risk is more than ordinary or when an increase of a credit limit or an extension of payment is asked. As has been pointed out, salesmen are the most valuable allies of the credit man in keeping him informed regarding his customers.

It is not necessary for the credit man to constantly pore over his ledger accounts. But everything which pertains to a customer or his account, or which affects his credit, should pass under the credit man's notice. This involves considerable detail, and each credit man, according to his needs, must work out his own system.

The interchange of knowledge and ideas neces-

sary between the credits and collections in any house makes them well nigh inseparable. In order to make credits safely, a credit man must have the knowledge which comes from an oversight of collections. To make collections intelligently, a collection manager must possess the information and experience acquired in making credits. Injustice to customers and losses to the house would arise were the two departments kept entirely separate. The continuance of credit to a customer depends not only upon his responsibility, but upon the manner in which his account is cared for. The condition of a customer's account is a more potent factor in the continuance of credit than any one other consideration. And in no way can the credit man know this more intimately and more easily than by having control over collections. A man with his finger on collections can make his credits in less time and more accurately than one who is foreign to the collection department; and the collection manager, fresh from the making of credits, can conduct the collections with less expense and less friction than an independent collection manager.

I cannot agree with those who would allow a first order to pass through without much consideration, on the ground that they can do the investigating afterward and refuse the second order if the credit seems doubtful. The time for refusing credit is before any goods have been shipped. Nothing is more irksome than turning a man down or holding him to a short line of credit after credit has once been granted. It smacks of amateurism and indecision. It is very poor policy for a credit man to work himself into such a position, especially when he is handling an advertised article. Furthermore, granting credit

on a first order often leads to the extension of credit on a second and third to make good on the payment of the first. There is no more dangerous course than this.

Manufacturing terms are not always cash; often they are based on the requirements of the buyer.

Different Terms of Payment Each line of business has certain terms in trade all its own. These terms are dictated by custom and are so well founded that rarely is there any question of terms at all. Generally speaking, manufacturing houses in the same line grant the same terms.

But within each line distinctions are usually made between terms to jobbers, terms to retailers, and sales subject to special terms on contract. Briefly, the general principle is that the terms should be such as to allow the buyer to realize upon the goods bought before the bills for them fall due. Thus, suppose the season for a certain line of goods opens April 1 and closes about June 1. Goods shipped to jobbers as early as December 1, as often happens, will be billed to fall due on June 1. Now, the jobber will probably sell to the dealer on March 1 on ninety days' time. He gives ninety days in order that the dealer may not be forced to pay for the goods until he himself has sold them. The retailer will get his payment from the consumer between April 1 and June 1. He will pay the jobber by June 1, and therefore the jobber will pay the manufacturer with the money that he has realized on the goods.

On a new line of goods which a manufacturing house is very desirous of placing on the market, even longer terms than these may be given, purely to attract orders.

To the retailer the manufacturer will naturally sell on shorter terms, inasmuch as he will sell to him at a later date than to the jobber, and hence not so long a time is necessary for the retailer to realize upon these goods.

Terms by one manufacturer to another who uses the goods of the first as raw material in manufacturing his product are usually the same as to a jobber. His orders are often filled on contract, and the terms are then a matter of settlement between the individual manufacturers.

Settlement by note, either with jobbers, retailers or manufacturers, is much more usual with a manufacturing house than with any other concern. It can be said, however, that the clever credit man can make the terms which the financial policy and condition of his house demands. If the house is working on small capital, the credit man, by giving discounts, will either be able to force shorter terms on his customer, or by taking notes may be able to get the use of the money. If he wishes to equalize his product, he can give long terms.

To make terms intelligently, a credit man should know if a customer has many of his accounts falling due at the same time. A certain account, for example, falls due on June 1. One of his well-informed creditors, knowing this, and having a similar maturing date for his line, knowing how difficult it will be for the customer to pay all his bills at this one date, and that he will probably require an extension, will equalize these payments; for instance, he will offer to allow the customer to pay one-third on May 15, one-third on June 1, and one-third on June 15. This proposition will probably look like a favor to the

debtor, while it will be just as desirable for the creditor as to have the whole paid on June 1, and much better than to grant an extension on all of it.

In collections, the most important thing is not to collect money after it is due, but to educate customers to pay bills when they mature. A bill should, of course, be sent out with each shipment. It is well to send statements on the first of each month to all jobbing houses and large corporations whose accounts bear a great variety of charges each month, and who discount their bills. If bills are not paid before maturity, there is no better way of educating customers than by rendering statements on the very day their bills mature, notifying them of the fact, and stating that unless they remit, or ask some other form of settlement, draft will be made upon them within a certain definite time. The practice of sending out statements on the first and fifteenth of each month for accounts which are to mature during the next fifteen days destroys the chief value of a statement, which is that it brings to the attention of the debtor the fact that his bill is due now and that remittance is expected. The best day on which to remind a man of this fact is the very day on which his account matures.

The notification that a sight draft will be made on debtor if his account is not paid will give no offense if accompanied by the saving statement, "unless other form of payment is desired." This gives the debtor the opportunity of sending his check in payment, or asking for an extension or some other settlement than a sight draft. If, however, neither payment nor explanation of any kind is received, the credit man should always draw the sight draft on the

day fixed. It is not good business policy to tamper with a customer's feelings. Do what you say you will do. Let him know and comprehend the policy and methods of the house by inference from their constant and regular operation. On the other hand, if a customer complains that he does not like that manner of settlement, the credit man should never let a complaint pass, but should always notify the customer that he will be glad to adopt any reasonable method of settlement suggested, and then demand that the customer live up to his own proposition.

A house will find that, if consistently followed, this method of drawing sight drafts is not offensive to customers, especially the country trade. Many of these do not keep ledger accounts with their creditors. They depend solely upon the bills and statements which they receive. They check up the goods when received with the original bill, and stick it on a spindle. When the statement comes, they check it up with the bill, and either remit at once or prepare to honor the draft. This makes a very simple method of bookkeeping for them and obviates the necessity for keeping an account. The original bill is their book account, the statement is their reminder, and their own check or the draft returned to them by their bank is their voucher receipt.

If a sight draft is not paid when presented by a local bank, it is best to order the draft to be presented again, and if then refused, the customer should be asked for an explanation. By using the ledger system described, the dates of these operations and comments can be noted upon the ledger by the bookkeeper, so that the transactions can be followed sys-

Course to
Pursue in
Collecting

tematically and a permanent record preserved.

The course of action to be pursued after the second refusal to honor the draft depends upon the value of the account, the credit man's experience with the customer, and his financial condition. It is at this stage that heart to heart letters are very telling. Nothing appeals to a man like presenting a case to him plainly and truthfully, in an open, fair way. "Why," the credit man may ask him, "cannot this house demand the same promptness in payments from a customer as the latter demands from the house in filling his orders?" A business man likes to be fair, and if it is proved to him that he is being treated fair and that he is asked merely to do the right thing in return, it is rare that he will not respond.

Nothing is more fatal than to allow overdue collections to drag along. When a customer has not asked for an extension, nothing should be taken for granted by the creditor. The burden of asking favors should be put on the debtor, especially when the creditor has done his part.

A collector can, on the one hand, be over-sanguine and easy and, on the other, too suspicious. The thing he should always consider is, Is the account in jeopardy? If he thinks there is any danger, he should place the account in such condition that if anything happens it will be safeguarded. If a credit man grants a favor by extending time for payment on an account, he is privileged to ask for something in return; that is, he may ask for some surety or guarantee on the account. If such a proposition is tactfully put to a customer, it will generally win his assent. In such instance, it is always better to see a customer personally. What can be said can often

not be written. The friendly expression of a man's face, the explanation of his attitude by word of mouth, an air of fairness and sympathy—things which cannot be put into a letter—will place what may seem like a hard proposition in a good light. If a personal interview is not possible, it must, of course, be left to correspondence. The essential thing, then, is to leave no loopholes in a letter which will allow the debtor to prolong the matter. State your proposition and then put a clause on the end of it which will allow of no if's and and's. When a man feels such a tone in a letter, friendly, yet final, he will come to terms quickly. Most business men know, and all credit men should bear in mind, that much more can be settled with pen and ink than by law.

When peaceful methods have been exhausted, only one recourse remains—the law. Legal action is unpleasant and unfruitful, and the credit man should avoid it as long as possible. When he has decided that this is the only alternative, however, he should not quibble farther with the debtor, but carry out his intention.

For a concern with a large business, the best plan is that it have its own general attorney. He knows the house, is familiar with its business and policy; he is a part of it. He can handle a case in a way that a foreign attorney cannot; he will be much more determined to further the interests of the house, for he is working, not for himself, as is a foreign attorney, but purely for the house. He will also have a better knowledge of the case in question and of the customer himself, for as house attorney much work will come his way aside from the legal collections, which will make him familiar with customers.

He can save his salary in commissions paid to a foreign attorney, and do much other work besides. Chronically slow cases, instead of being placed in the hands of a collection agency, can be placed in the hands of the house attorney to be handled at his discretion.

It is desirable the attorney use stationery of his own, such as will not make it generally known that he is house attorney, for an unfavorable impression may obtain among customers where it is known a legal department is required. It is preferable to call him an adjuster. In fact, if he is the right kind of a man, he will turn out to be much more of an adjuster than a collector, and for this additional reason he will be of great value to a house.

A house attorney is helpful to a credit man, outside of his collection functions. On many occasions, especially if the credit man has not a thorough legal training, an advantage which only a small majority of credit men have, he would have been saved many worries and many awkward accounts and even losses had he had an attorney's advice.

A well organized collection department should be able to carry an account up to the point where it is turned over to the attorney for immediate suit. The services of a collection agency between the stage where the collection of the account becomes doubtful and the stage where it is placed in the hands of an attorney should not be necessary. The collection agencies are, however, a great help to a small house which has neither the time nor the organization to put the proper effect and expert services into collections.

From a manufacturer's point of view, a debtor whose account has been in the hands of an attorney

is not necessarily one more customer lost, for this customer may be the best man in a town to handle the manufacturer's goods, and the credit man must so far yield to the interests of the other branches of the business as to be willing to open the account again.

As a general proposition, an honest debt is not open to compromise, but this is a statement which has a great many exceptions and is subject to many extenuating circumstances. If a debtor appears to have done his best to have made what is called an "honest failure," it cannot be other than the duty of the credit man to his firm to make the best settlement possible. In the case of a compromise, however, there should be a definite understanding with the other parties and with the debtor that all parties shall share alike. It is in just such matters that a credit man, if he is a good financier and a business man, will help to administer affairs of the debtor in such a way that he may be able to pull out of a bad hole. Generally speaking, compromises should be discouraged. If investigation shows that the case is one of fraud or cowardice, rather than countenance such proceedings, concerted action on the part of all creditors to the end that the law may take its course, and a thorough examination into his affairs be made.

CHAPTER X

CREDITS AND COLLECTIONS IN A RETAIL HOUSE

BY J. W. McCONNELL

Credit Manager, Carson, Pirie, Scott & Company

To lay down general rules which shall guide a retail house in its credit relations and a retail credit man in the conduct of his department is peculiarly difficult. So much depends upon the kind of goods handled by the house, the class of customers, and its geographical situation, that not even the most general rules will hold in all cases.

Between the credit activities of a retail house and those of a wholesale concern there is very little similarity. The two have wholly different policies; they deal with two radically different kinds of patronage; their attitude toward their customers differs as much as do the two classes of customers themselves; the information upon which they base their decisions is dissimilar; their methods of opening and handling outstanding accounts have little in common. Their objects are, perhaps, alike, but must be reached by different means.

The object which a retail credit man always has in view is an increase in sales with a minimum of losses. In other words, he wants to open as many accounts as possible, but open them on such a basis and watch them with such care that his percentage of losses will not be raised. A retail credit man's value

is much more often judged from the volume of sales than is that of one in a wholesale house. The credit man should realize that his worth to the house he serves is directly in proportion to the volume of his open accounts. If his accounts run to the amount of one million dollars, he is earning just twice as much for the house as if they were five hundred thousand, always provided his percentage of losses does not increase. Although a bold statement, it is nevertheless true, that a retail house may do well to encourage charge accounts, with competition as sharp as it is to-day. The cash customer flits from store to store; a house has no bond strong enough to hold him; a charge account affords this bond; the credit customer will buy where he has an account. It is part of the credit man's work to bind customers to the house.

Now, how is he to fulfill this important function? The mere extension of credit is not sufficient; it is not even a case of prices and quality; the sales department must work that end
Scope of Credit Man's Functions of it; it is much more a matter of treatment and service. The merchant buying from the wholesaler looks at but two things, the price and the quality; service may enter into the consideration, but even then only as regards promptness and accuracy. But in retail trade, service and treatment—the methods of handling and taking care of customers—are prime considerations. The retail customer is more of a human personality, and, as a rule, one of the "weaker sex," consequently less of a hard business machine than the wholesale buyer. She comes in closer, more personal contact with the business, she buys in person at the store, and often has personal interviews with the credit man or the heads of other de-

partments. She requires more personal care than the merchant, and the fact that she is less familiar with business operations, more sensitive concerning interrogations—primitively human, in other words—necessitates more careful handling.

Because the credit man must accomplish this vitally important task of keeping the customer satisfied, it is essential that his relations with other departments of the house be such as to command attention. He should exercise a general oversight over at least that part of the sales end of the business which affects the treatment of customers. This is a broad statement, and will extend his activities into the sales, the shipping, the complaint and the employment departments. To carry out his credit functions properly, he should be manager of the bookkeeping, cashier's and collection departments also. Their system must conform to the demands of his work, and, in order to watch his customers and their accounts properly, his touch with these departments must be so close that separation between them is impracticable, if not impossible.

Having these objects to accomplish, what are the qualities necessary for a successful credit man? He should, above all things, be a man of great tact, diplomatic, capable of handling men, and more especially women. He comes in personal contact with a large number of people daily, men and women who cannot be handled in a technically business way because they know little of commercial affairs, and with such people it is much harder to do business than with the business man. Under the necessity of acquiring much of his information by personal contact with people, he should be able to draw them out so tactfully that he

can get the information he wishes unawares. This also requires ability to read human nature, to judge of character and worth simply by his intuition, and intuition is merely acquired knowledge and experience intelligently applied.

That experience in the operative and selling branch of his business is of great value to a credit man cannot be denied. A credit man who knows the goods his house carries, their different grades and qualities, their values, their cost and selling price; who, through experience, is familiar with the buying of the goods, or with the methods of selling; who can keep in touch with the methods of competitors in all lines—such a man naturally has an advantage, all other things being equal, over a credit man who has always been an office man.

As the wholesale credit man should, to some extent, inform himself concerning the general financial conditions of the country, so the credit man in the retail store should keep in touch with the local financial or commercial conditions, only his information, less extensive, must be much more minute and specific. If a large manufacturing house in his locality cuts down its force, if a body of men go on a strike, if a plant is about to move away from the city, all such facts he must know, for they are of value to him in making his decisions on credit extensions. The credit man, if he keeps his eyes and ears open, and is quick at putting two and two together, will learn and absorb many facts each day concerning his customers. The better he knows his community, and its people, the more quickly and intelligently will he be able to make his judgments, the less he will annoy his patrons, and the safer his decisions will be.

The information upon which the credit man bases his judgment is such as will tell him the honesty and integrity of the customer, his worth and **Information Necessary for Judgment** resources. His past history is of little value, except insofar as it relates to his credit record. The fact that a customer has gone through bankruptcy or was slow in making payments five years ago does not affect his retail credit if his present character is good; his whole business and social record are not inquired into, nor his habits or associates. The retailer wants specific facts; the residence of the applicant, his position or source of income, the extent of his property, his present or past charge accounts; such questions as the amount of his bank account are considered legitimate. In case the applicant is a married woman, these questions, of course, refer to her husband.

This information is derived from the applicant himself, from outside sources, or both. Credit accounts are opened in one of two ways. Either the buyer makes direct application for credit, or he makes a purchase and simply requests the salesperson to have it charged. In either case the credit man bends his efforts to making his decision without recourse to personal interrogations. Such a course will bring trade, for it is simply one point in careful handling of customers. Women especially have such a terror of these interviews, that the possibility of passing through the ordeal will often deter them from attempting to open an account. They seem to think that all their private history and personal secrets will be brutally exposed to the examination of a cold-blooded individual who will delight in prying into their personal affairs. A house, therefore, which obtains a reputa-

tion for not requiring personal examination will draw these timid accounts. Such a course also flatters a customer, for it gives her the impression that she is so well and favorably known that she need present no credentials.

When a personal interview is absolutely necessary, the credit man attempts to make it as short and as impersonal as possible. He may obtain the information desired in a few direct questions. But if the applicant seems sensitive, he should endeavor to draw out the information he wants in an indirect way; to do this without seeming to pry unnecessarily into an applicant's private affairs, and so hurting his sensibilities, is a delicate task. The credit man must often learn his facts in the course of a general conversation, by inference from statements and admissions, and from his own observation of the applicant. The facts thus obtained are usually verified from outside sources.

In addition to this, outside sources for obtaining original information are at hand. If the applicant is a business man he can be investigated through the medium of the mercantile agencies, as if he were buying an invoice of goods from a wholesale house, and all information necessary can be thus acquired. In case he is not engaged in mercantile pursuits, the commercial agencies are often able to afford the facts the credit man needs. Their service is becoming more and more complete as regards individuals they cover, and more accurate as respects the information they give. If a man has ever had any doubt cast upon his credit, if he has ever been sued, if an account of his has ever needed the services of a collection agency, if he has any old unpaid bills, or if his property is en-

cumbered—all such facts they almost invariably have on record.

The retail stores of the large cities have no organized system of credit clearings or of reporting delinquent customers. The only time the store applies to another for information is when an applicant gives another store with which he has an account as a reference; then the latter store will give the information desired, more as a favor to its customer, to be sure, than to the house inquiring.

When a buyer who has no account requests goods charged, since the clerk who approves all charge sales will not find him on his list, the sale will be passed up to the credit manager. He will attempt to pass on the advisability of opening this account without a direct interview with the buyer, and will set in motion the machinery above described for investigation. The facts thus obtained are usually sufficient. Sometimes the buyer is so well known and of such undoubted integrity as to need no investigation at all. The account is opened and a polite note sent to the customer, assuring him that the opportunity of adding his name to the list of "charge customers" is appreciated.

Even though investigation in any case proves that the advisability of extending credit is a little doubtful, the retail credit man has a much wider field than his wholesale confrere for using his ingenuity in seeking a safe basis on which to open an account. Various means for securing and guaranteeing or limiting the account may be devised to suit individual cases.

Every account has a limit placed upon the monthly credit which is to be extended to the customer. This, however, is not a fixed line beyond which there is no advance; it is more a means of guiding the

work of the employes of the credit department. It simply means that when a customer's purchases for any month have reached this limit, further sales must be submitted to the credit manager for approval. It is a kind of safety-valve by which an account is brought to the attention of the head of the credit department when it has reached a certain stage. The amount of the limit may be changed several times during the same month, depending on the condition of the customer's account and the kind of purchases he is making.

The real work of the credit man is not so much in opening accounts as in keeping in close touch with them after they are started and making prompt collections. The hold of the retail store on its charge customers is much more intangible than that of the jobber. The merchant buying from the wholesale house has assets in his business; he must pay, or confess insolvency and lose his business reputation; he cannot move from one community to another with ease. No such considerations weigh with the retail buyer; the credit man must substitute for this unceasing watchfulness over his account and his customers themselves.

In a large house it is absolutely necessary that he keep a record of his customers. The most convenient form is a card index arranged alphabetically, each card containing in concise form the salient facts and information regarding each customer. Any new information secured is at once entered on these cards, so that they are kept up to date.

The credit man's second source of information regarding his open accounts are his ledger records. With thousands of accounts on his books it is of

course, impossible for the credit man to keep informed regarding the status of all his accounts. He must be satisfied if he can keep in touch with the more vital accounts—those which are overdue. This he can do most easily by looking over those of the statements sent out by the bookkeeping department on the first of each month which contain overdue items. In addition to this, the credit man should be notified the moment an account reaches the limit; the credit limit is placed at the top of the ledger sheet of each customer; the bookkeeper, as he enters the previous day's sales each morning, can make a memorandum of those accounts which have reached or overrun the limit, and place them on the credit man's desk.

In collections, again, the credit man must exercise tact and use his knowledge of his customers and their affairs; and, knowing their peculiarities better than anyone else in the house, he can best determine the general policy to be pursued in collections and the procedure in individual cases. Women, and many men also, take offense at even a reminder of indebtedness, classing all such as "duns." They must be treated very delicately, even though their accounts are overdue. It is at bottom a question of making them think that they are paying when they please, and yet so influencing them that their time of "paying when they please" will correspond with the time when the house wants them to pay. By the use of tactful reminders, the right kind of correspondence, and indirect methods, customers can be trained to be prompt payers. Some customers, perfectly good, pay only every sixty days or even quarterly. Their wishes must be observed, and one slip in the way of an insistent dun letter may

**Tact in
Making
Collections**

lose the account. Credit men find that the financial arrangements of husband and wife differ greatly in different families. Some men do not wish any bills contracted by their wives to come to themselves or to their offices, but insist that they go directly to their wives; others do not want their wives to see any bills, but desire to have bills sent to themselves. Such wishes must be known and observed.

Sharp collections reduce the percentage of losses and the expense of running a business, and increase sales. As the age of a bill increases the chance of collecting it decreases; repeated attempts at collection often irritate a customer and make him even more prone to put off payment. The added expense comes in two ways; in the time and money spent by the collectors and in correspondence; and, what is more vital, in the much greater amount of capital necessary for the carrying of overdue accounts. When a house has thousands of open accounts on its books, running into the hundreds of thousands in money, the saving in the interest on the capital tied up in bills receivable when they are collected ten days instead of sixty days after due, is no inconsiderable item.

A retail house has its corps of collectors like a wholesale house, but their method of work is wholly different. A man engaged in business expects statements and personal collectors when his account becomes overdue; he doesn't resent it. The majority of debtors of a retail house consider a reiterated demand for payment as an affront, and a call from a collector as an insult. Nevertheless, the retail merchant must look after his collections even more sharply than a wholesaler, for only in this way can he make up for more or less risky extensions of credit.

That prompt collection increases sales results from the fact that a customer, having a large bill overdue at one store, will transfer his patronage to another establishment because of fear of being refused further credit at the first and a dislike of increasing his account.

All possible moral suasion and peaceable efforts should be used in collecting before resorting to more strenuous methods. When an account reaches the stage, however, where it is apparent that the debtor is attempting to avoid his debt, and it becomes a question of getting payment in the quickest and surest way, legal steps should be taken. Before taking such steps the credit man must have made up his mind that it is to his interest to close the account in question. For, once he has taken recourse to law, he may as well make up his mind that the customer is lost to him. It is bad policy for him to reopen an account with such a man, not only because he has proved himself untrustworthy and unprofitable, but also because, when a person is sued by a house, justly or unjustly, one can figure that he will be itching to put that house into a hole at the first opportunity.

The whole matter of collections, even more than that of making credits, depends upon a store's class of patrons. A high-grade, wealthy patronage needs an entirely different, much more subtle and less strenuous collection system than customers who belong to the less wealthy classes.

CHAPTER XI

CREDITS AND COLLECTIONS IN AN INSTALLMENT HOUSE

By E. F. KENNEDY

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The merchant who sells on the installment basis has the advantage over the retailer in one way, in that he usually receives a cash down payment for part of the invoice and has a contract or mortgage of some kind for the remainder which protects him against the loss of the goods, unless the customer is openly dishonest and fraudulent. On the other hand, he works at a disadvantage as compared with the retailer, for he virtually cannot discriminate as to whom he shall trust. And as installment man, he must sell on this basis to all who offer themselves and can show any record at all. If he refuses them, he not only loses this order, but very likely the entire trade of the customer. The retailer, if he does not think it advisable to extend credit, can often persuade the applicant to pay cash, and thus keep his patronage. The retailer can put off granting credit for months until he has traded with the customer and knows his trustworthiness from personal experience, without giving serious offense or necessarily losing a sale or a customer. If an installment merchant refuses credit, there is no other alternative open—the sale, and probably the customer, is lost.

In granting credit to a new customer, the credit

man of an installment house must depend almost entirely on his intuitions and experience in judging men. He has three classes to face; those who are honest and intend to pay, and who will pay; those who are honest and of good intentions, but who overestimate their ability to pay and eventually will fail to pay; and those who never intend to pay and are simply trying to obtain the goods under false pretenses.

The latter class is very small. Such strong guards have been placed around the installment contract that fraud is difficult and dangerous. The great majority of buyers are of good intentions, and a credit man can make no bigger mistake than to go on the assumption that all people are dishonest dead beats, and that his business is to keep the house from being cheated. This suspicious and pessimistic attitude will hurt his work and the trade of his house rather than help it. There is no man or woman so proud and sensitive as the "poor but honest," and it is largely with this class of people that the installment house deals.

The credit man, having the bill of goods ordered and the buyer himself before him, must decide almost on the spot, from his impressions of
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Which Credit the individual and the information he
is Based obtains from his direct questioning,
whether to approve the sale and allow the credit. The installment house is not now, as formerly, in the position of one granting favors, and so permitted to ask any questions, to dictate any terms, and generally tread all over the sensibilities of the buyer. There is now too much competition in this line of business. Buying on installments no longer reflects any discredit on the buyer as it once did;

he is quite as likely as not to have money invested or in a savings account which he does not wish to draw upon. He has a choice between houses, and he usually bases his selection on their methods of inquiry and their terms; he has consequently become more independent and sensitive, and he must be treated accordingly.

The credit man must, of course, secure certain information relative to a customer's stability and circumstances, preliminary to approving a sale. The greater part of this information he must get directly from the customer himself. And just because this customer will be sensitive, the credit man should learn as much as possible by indirect questioning in the course of a pleasant, rambling conversation; he must lead up to unconscious admissions and side-remarks and implications. The usual information desired is: the reason the customer is buying on installments; the source of his income, from which the installments are to be paid; where the person, husband, father, or whoever is responsible for the payments, works; the general circumstances of the customer as to property owned, bank account, and so on.

If the credit man starts on his search for this information from an attitude of suspicion, he is bound to antagonize the customer. He must rather appear sympathetic, obliging, as if all were a mere formality and unnecessary for the extension of credit in this case. Pleasantness, an appearance and tone of friendliness, a sincere and apparent desire to be helpful and accommodating, go a long way in any kind of business activity, but nowhere are they more to be emphasized than here.

The credit man must virtually make his decisions

on the spur of the moment, judging of the truth of the facts given him from general appearances and his intangible impressions. He can, and very often does, investigate the facts he has obtained before the goods are delivered, but the most he can do is to find out whether the place of employment given is correct, and even this he must do secretly, for the information is usually given confidentially. A customer usually does not wish his employer or anyone else to know that he is buying in this manner, and consequently verification of the facts he gives cannot be made openly. In this respect the wishes of the customer must be observed if his account is to be kept by the house. The credit man must judge of the customer's honesty from his general appearance and attitude; he must determine whether the different items of information he gives agree, and whether the goods bought, both as to the size of the order and the quality of the goods, seem to be in accord with the apparent circumstances of the customer.

The credit man ought, as should any business man, always to be on the lookout for knaves. They are either very hard or very easy to recognize, for either they are clumsy and can be detected at first sight from their appearance or from the apparent invention of the information they give, or they are very clever and put up an almost undetectable front. The only way to cope with the latter is to make the contract of sale so binding, and the follow-up and collection system so stringent, that they cannot get an opportunity to carry out their fraudulent designs.

The hardest task of the credit man is to detect such among the honest and good-intentioned people as are evidently over-reaching their resources in their

purchases. To discover such people requires deep insight into character and a clever analysis of the information under review. Long experience with installment sales and accounts will enable him to estimate with remarkable accuracy the approximate paying value of a given income or certain resources. Even when he has detected such a person, however, a task equally hard is to handle the customer in such a way as to make a sale and still be safe. If his judgment places a prospective buyer in this class, the credit man probably will not wish to wholly turn him down; he may come to be a good customer. The credit man must seek to bring the order to a safe basis.

The collection department of any business house should be closely allied to the credit department, but in no business is this so necessary, and **Importance of Prompt Collections** in fact indispensable, as in an installment house. A vigilant, sharp, intelligent collection policy and system will do much more to reduce the percentage of foreclosures and bad accounts than the best credit making, for not only can a good collection department save a doubtful account, but a poor one can lose many good bills.

Even more important than this is the fact that prompt collections increase the volume of sales. A credit man who knows his collections are being well taken care of can make his terms a little more liberal, and can thus accept more orders and will in the end draw more trade. Then, too, a customer who gets his account paid up promptly will come back for a new purchase sooner and he will be more apt to come back anyway, for prompt payments are the easiest to make

and cause the least trouble and friction between house and customer.

Each account should be carefully watched, not a day's delay in payment allowed without the reason being known, and the circumstances and movements of customers zealously followed. It is the regular, permanent customer who brings the profit, and the regular customer is the one with whom the house never has the least trouble; customers can be trained to pay promptly as they can be encouraged to be dilatory. The longer a payment is put off, the heavier the burden becomes. The point, that the older a bill is the harder it is to collect, is especially well taken in case of installment accounts, for delay on one payment is going to throw all those that follow out of gear and make their collection just so much more difficult.

Detailed records should be kept of each account, not only for the sake of the bookkeeping department, but even more for the use of the credit man when an old customer asks credit for a new purchase. The credit man can call for his previous records, and can determine at once whether he paid willingly and promptly, or whether he was slow and cost more in expense of collecting his bill than there was profit in his order. In such a case these old records are the most valuable source of information that the credit man can have.

Foreclosures should be a last resort. Under no circumstances does it pay to force a seizure of the goods sold when there is the least possibility of peaceable settlement. It is much better to extend the mortgage, grant more time, coax the customer along as far as possible. Foreclosing invariably results

in the loss of the customer, is liable to give the house a bad reputation, whether justly or unjustly, and is never profitable. The goods returned are always worn and must be resold at secondhand prices. Only, therefore, when all possible peaceful efforts to secure payment have failed should recourse to legal steps be had. The credit and collection department may have "no profit on account" chalked up against it, but any number of these show better management than a row of foreclosures.

CHAPTER XII

CREDITS AND COLLECTIONS IN FOREIGN TRADE

BY JOHN E. GARDIN

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The American merchant who seeks a market for his wares in foreign countries is confronted with the fact that he knows very little about his customers, nor does he know, as a rule, anything about the customs prevailing in the commercial marts abroad. This lack of knowledge not only leads to monetary loss, but also to loss of prestige in consequence of the matter not being handled according to his customer's views, thus piling up difficulties at the outset of his career as a factor in foreign markets. Chauvinism is rampant in all countries, and the foreigner entertains the same view as the American does in a great many respects, that there is nothing good to come from any country but his own.

It is only by dint of the hardest kind of work, the untiring efforts of our consular officers abroad and the ceaseless energy of the pioneers in this country in foreign trade, that America has been at last able to bring before a consuming public in foreign lands the excellence of its goods. To what extent American products are in demand on the other side of the water has been fully demonstrated. The fame of the American producer is now well established, and the

great corporations who are seeking an outlet for their surplus wares have no difficulty in selling as much of their product as they desire, and the only question is that of price.

However, this was not accomplished without the greatest labor on the part of such corporations through the organization of agencies in all the principal cities of Europe and elsewhere, by the organization even of banks to handle the financial end of their business. The result is that their sales abroad now run into hundreds and thousands of millions of dollars annually.

The ordinary merchant, in the first place, has not the means at his command to perfect an organization which will protect his interests at every stage of the game, but must depend upon his own individual efforts, aided by integrity and honesty, in dealing with his clients. In this respect he is ably assisted by the various banking institutions of importance in this country, who all have large and extended foreign connections.

By means of his banking connections at home he is able to determine who is worthy of credit and who is not. It is the purpose of this article **Information in Foreign Credits** to describe, as far as possible, the essential requisites for the successful handling of credits in foreign trade.

Advantage is taken frequently by unscrupulous concerns abroad to work schemes upon the American mercantile community, and these are often successful. Particularly in Holland there is a well organized clique of swindlers, who, on the basis of advertisements in trade journals, send in orders for goods and, upon receiving same, disappear from the scene alto-

gether, only to reappear under a different name perhaps in a different city. This gang has for a number of years successfully exploited the American commercial community. The same thing is going on in other countries, but not to the same extent. It therefore behooves the American exporter to have great care whom he is dealing with; and he can do so, for he has abundant opportunity before shipping goods to inform himself in regard to the solvency of any would-be clients.

England has an exceedingly elaborate and reliable system of commercial reports in the well tabulated returns of the commercial agency of Seyds, commonly known as Seyd's Reports. In these reports every commercial house of any standing whatever is quoted in four different columns, giving trade extent, monetary credit and other information which serves as a guide to the exporter. These reports are the most reliable of any published in any country, our own not excepted. Seyd's Reports alone constitute a library, and while they are expensive, to a large commercial house doing an important business with England they are an absolute necessity. The small merchant need not go to this expense for gaining the benefit of this elaborate system, as every banking institution of any importance doing a foreign business has this work in its library, and, true to the maxim of the banking world, that it is the intermediary of commerce and trade, they stand always willing to allow the use of them to their clients.

In addition to these reports, every large banking institution has files of information concerning the standing of practically every important business house in the world, and the benefit of years of labor in this

respect is placed at the disposal of business men at the expense of perhaps a two-cent postage stamp. Should, contrary to expectation, the files be incomplete to the extent of just the one party that is inquired about, this deficiency can be remedied instantaneously at a slight cost and delay by making inquiry through its connections abroad as to the standing of the party desired. In the event of an important deal this inquiry can be made by cable, so that the reply would be to hand within a few hours.

The most reliable information concerning foreign parties, of course, is to be obtained only through foreign bankers. But the foreign banker **Obtainable** **Only Through** declines, and with good reason, to im- **Banks** part any information concerning commercial houses in his locality to any but banks and bankers with whom he is in connection. It therefore behooves the merchant who desires information to apply to his bank therefor, which in its turn will send the matter on to its proper destination, with the result that an answer will be forthcoming as fast as the mail or telegraph can bring it.

My advice, therefore, is: do not hesitate to call upon your banker. He is at all times ready to aid commerce in all its branches and does so most efficiently. Any reason to the effect that doing this service brings no returns to him is a fallacious one. It is true it brings no immediate returns; quite to the contrary, it costs him money, in the time of his employes, in postages, and so on. But the advantage is a collateral one to the extent that it furthers the business, and if the information is satisfactory and leads to engagements, the banker sooner or later is sure to get his share. This matter of procuring in-

formation for his friends is simply one of casting bread upon the waters. The returns will surely come some time or another. Consequently the merchant need not hesitate to employ his bankers in this respect with perfect freedom, and may rest assured that the service is not grudgingly rendered.

On the continent there are well-established bureaus of information which impart what information is obtainable concerning the standing of parties for a certain fee, which as a rule is rather a small one; still these reports, as a general thing, are reliable and are an indication anyway as to whether the party with whom the merchant in this country intends doing business is reputable or not. Nevertheless, the information from the banker, as a supplementary matter, is absolutely essential, inasmuch as the private institution very reluctantly or in fact rarely ever gives information that is bad, owing to the stringent libel laws in foreign lands.

Quite frequently the argument is advanced: "What do I care what the standing of the parties abroad is? I can arrange matters in such a way that they cannot get hold of the goods without paying my bill." While this is true in a great many cases, still at the same time, it is a pretty risky way of doing business. The merchant forwards his goods, perhaps consigned to his own order, attaches his bills of lading, insurance certificate and other documents that are required to a draft which is made upon the purchaser and deposits this with his banker, secure in the feeling that his goods will not be delivered to the purchaser unless the quid pro quo is duly returned. Should it prove to be the case that he is not reliable and the goods are withheld, the expense of taking

care of the merchandise on arrival, the vexatious delays and annoyances and the sacrifice that he will have to submit to in disposing of the goods, unless he desires to throw good money after the bad in having the goods returned, will eat up his profits. How much easier to investigate the reliability of the customer before filling the order.

Granted now that information shows a foreign buyer to be reliable and satisfactory, what methods are open to the credit man for making his collections? Three courses are open to him: Draft on the buyer with shipping documents attached; draft on a bank in which the buyer has a deposit or credit, and a "clean" draft.

The first method is the most common, and is the safest, considering its simplicity. When goods are shipped to the buyer in a foreign country, the bill of lading and other shipping documents which he requires before the goods can be delivered to him by the transportation company are attached to a draft. These shipping documents consist of bills of lading, and insurance certificates, in the case of ordinary manufactured goods; documents, such as inspection certificates, are required where cereals are shipped; in shipments of meat products, inspection certificates, generally of two kinds, are required—board of trade certificates of inspection, and United States government microscopical certificates; in shipments to some countries where a differential tariff is in vogue, certificates of origin are required.

The seller sells this draft with document attached to his local bank, and is paid for it by check or by a credit to his account. The bank takes no risk, for, even though the buyer does not pay, it has possession

of the goods, and can even hold the seller for the amount. The banker forwards the draft to his correspondent abroad in the locality of the buyer for collection. The buyer cannot obtain the goods until he honors the draft.

Usually the goods are sold on time, the drafts running for sixty or ninety days. In order to enable the purchaser to obtain possession of the goods in the event of a sale, or if they are of a perishable nature, prior to the maturity of the draft, a provision is made to the effect that should it be desired the purchaser can withdraw the goods upon payment of the draft under a rebate of interest at a certain percentage—on the continent generally at the bank rate, the official rate of discount of the state bank of the country.

Even with this seemingly safe method, the shipper should exercise every precaution, for it does not always protect him. The goods themselves should never bear any mark or address by which the consignee could in any way prove they were intended for him, and thus claim them in the absence of the bill of lading, as quite frequently happens when the merchandise arrives at destination before the draft is presented. The transportation company's agent is almost always under the influence of local merchants, and his standing in the community in a great measure depends upon their good will; hence it can be readily seen when it comes to favoring anyone where there is the slightest ambiguity in the shipping instructions, it certainly will not be the foreign shipper. If the packages of goods have to be marked, it should be with the name or initials of the shipper, and the bills of lading themselves should always read that the

goods are deliverable only to the order of the shipper. These remarks apply chiefly to remote points, as the principal European countries are subject to well-established rules and regulations; but notwithstanding this, considerable laxity is the order of the day, and it behooves a shipper to be as technical as possible, as it is always on technical grounds that the agents of transportation companies claim immunity.

The second method of obtaining payment for goods is used when the consignee is not known to the shipper and the latter does not wish to take the risk of the expense of having the goods returned to him in case draft is not honored. The buyer then makes a deposit with some foreign bank, or, if he be favorably known, gets a credit for a certain length of time. The bank writes to the seller—and often also to the seller's bank—stating that the seller can draw on the buyer at this bank for a certain length of time up to a specified amount, with proper documents showing that goods have been shipped attached to the draft. The seller presents this letter to his bank, which takes up his draft with papers attached and makes collection from the foreign bank. In this case the whole risk lies with the foreign bank.

This method is generally used in trade with South America and countries having poor banking facilities and poorer credit. Deposits are usually made or credit obtained by the buyer in a London bank through which drafts can most easily and safely be drawn.

Making a "clean" draft on a customer is the third method open to the seller. This is identical with drawing sight draft on a domestic debtor. The goods

are shipped to the address of the buyer without attachments. When the bill falls due, the seller draws on the buyer for the amount of the shipment through his local bank, which in turn collects through its foreign correspondent. In this case the seller bears all the risk. It is used only in selling to accredited foreign agents or to houses whose credit is beyond suspicion.

The principles laid down here have necessarily been most general. The credit man cannot conduct his foreign trade in the way that he handles his domestic business. He must, in the first place, exercise the utmost care in the details. He must handle his trade with each country differently, according to its laws and customs and its banking facilities and standards of commercial integrity.

CHAPTER XIII

A SYSTEM FOR CONDUCTING THE CREDITS OF A WHOLESALE HOUSE

By F. E. FRENCH

Credit Manager, J. V. Farwell & Company

The system outlined in this article is the outgrowth of the experience of one of the oldest and largest dry goods houses in the United States, and, having been in the course of development for decades, is not the production of one man, but the result of the work of many men, modified by frequent changes in business conditions.

One feature of this great system which may seem unique because it may not do in a new business, or for a system just established, is that all orders do not necessarily pass the inspection of the credit department. The principle observed in this feature is that, inasmuch as 75 per cent of desirable merchants discount all purchases, and are perfectly good for lines of credit commensurate with the amount of capital employed in their business, it is unnecessary for these accounts to be watched carefully by the credit office, but only accounts concerning which there is the least doubt, or upon which there is the least stain, require the observing eye of the credit manager upon them. This does not mean that all accounts should not be periodically reviewed and revised by the credit man, nor do the words "doubt-

ful" or "stain" refer only to large factors, but to the slightest deviations from the straight and narrow path of business integrity. By eliminating in a measure such desirable, discounting accounts, the credit department is not only saved a great deal of unnecessary work, but is given the time to observe more closely the accounts which need watching.

All mail for the house is received and opened in the cashier's department; only remittance letters and money, however, are retained in this department. The balance of the mail, including orders, is immediately sent to the credit department, where it is separated. The orders, being the most important feature, are promptly distributed by clerks to the bookkeeper's department, where they are separated by the various bookkeepers according to the desirability of the customer. The orders from those whose accounts are in good condition and who have liberal lines of credit (according to characters noted on each account) are turned over to the salesmen, after having the time received stamped upon them, without going to the credit office. Upon all doubtful and new accounts there is a slip placed showing the condition of the account and line of credit. These orders only are referred to the credit office.

It may be well here to follow a new order through to its shipment:

In the first place, there should be as little delay as possible in the filling of new orders. Promptness in executing the first order disposes the merchant to repeat his orders, thereby increasing the account. A large percentage of orders can be turned over to the sales de-

**The Course
of an
Order**

partment, upon the high rating of the merchant in the various mercantile agency books, while the usual investigation can be made later. If, however, the book rating is in the least unsatisfactory, the order is retained until special reports are obtained, and if such information is in the least conflicting or unfavorable the order is still retained until all references and replies to inquiries from correspondents are received.

If the volume of information is not altogether satisfactory, the customer is written direct for a statement of his financial affairs, a guarantee covering his purchases, or a remittance covering the amount of the order. Inasmuch as a large percentage of orders are now taken by traveling salesmen, several months prior to date of shipment, and, if from a new customer, are accompanied with report blanks giving the customer's references as well as the salesman's impressions, the credit department has ample time in which to make the investigation before the date of shipment. But in order that no mistakes may be made on account of filling orders which will not be shipped promptly, a memorandum of the estimated amount of all orders for future shipment is sent to the credit department just prior to the filling of such orders. In this way the house will not be put to the expense of filling the order unless the goods are to be shipped.

When a new account has been passed upon and approved, a special sheet is made for it by the stenographer (this house uses the loose-leaf ledger system) and upon this sheet is inserted, in characters, the classification and line of credit, as well as terms and name of the general salesman. The classification in-

dicates the desirability of the account. For the benefit of the traveling salesman, this classification is inserted in the road salesman's credit guide, which will be hereafter mentioned. The line of credit is the amount of credit given by the credit manager, based upon information he has received, the character and general condition of the customer, how much confidence can be placed in him, and so on. If a customer's business is in a good healthy condition and has a capital of \$10,000, all in his business, he is entitled to a given line of credit, although this line of credit is often increased, according to the extent to which he confines his purchases to the company, and the promptness with which he meets his obligations. This increased line is usually determined by the amount of business he is doing, and similar considerations. A customer with a stock of \$10,000, and doing a business of \$30,000, is entitled to a larger line of credit than a customer with the same amount of capital and doing a business of only \$15,000 to \$20,000. Statistics show that if in this line of business a merchant does not turn his stock at least twice annually, he is not making any money.

Using the original ledgers instead of collection books is preferable, in that the condition of the customer's account may be quickly noted, together with payments, so that the amount past due may be treated accordingly; in fact, payments, slow or prompt, are the best indicators of a customer's condition. Every ten days the credit manager receives from the bookkeeper all ledgers, with slips projecting where there is an amount past due. This keeps the credit man in the

**The
Conduct of
Collections**

closest touch with his customers and gives him a knowledge of their condition which cannot be obtained in any other way. It is often said in credit circles that a strenuous collection department obviates the necessity for a particularly able credit department. It can be just as positively asserted that an able credit department avoids the necessity for an extremely capable collection department. It is to the latter idea that this system leans, although collections are by no means neglected. Good judgment in the beginning of a credit transaction obviates the necessity of receiving an uncollectable "judgment" later on.

Now let us take up an order from an old customer, which has been received by the bookkeeping department. In the first place, the bookkeeper refers to the ledger. If there is nothing past due and the indebtedness is within the line of credit noted in the ledger, the order is immediately sent to the general salesman to be filled. After it is filled, however, and ready for shipment, a shipping ticket is sent to the credit department for its O. K. In this way, no order really goes out of the house without coming under the eyes of the credit manager. In case an order is received from a customer whose account is not in a satisfactory condition or whose rating is below the rank which entitles him to be called good, or which is too large for the bookkeeping department to pass upon on its own responsibility, then a ticket is attached by the bookkeeper, upon which is noted the condition of the account, last payment, line of credit, and so on, in order that the credit manager may decide promptly as to whether or not the order shall be

filled. The order is then referred to the credit manager for approval. Often, in cases of this kind, new information and a new financial statement are necessary.

A revision of credit lines on all customers is made periodically and the lines are raised or lowered, according to changes of the customer's commercial rating and his promptness in meeting his obligations.

How

Information

Is Stored

All credit information is filed in separate envelopes, on which is written a brief synopsis of the customer's condition, line of credit and other general information, to avoid the necessity of the credit man going through the entire mass of information.

Each of the traveling salesmen for this company is furnished with a traveler's credit guide. This has been found indispensable, for it not only saves an enormous annual expense to the company, but the time of the traveling salesman. This guide is for the purpose of keeping each salesman thoroughly posted as to the credit condition of all merchants he anticipates visiting and in this book the classifications noted in the ledger are inserted. These classifications fluctuate according to the desirability of the account, based on responsibility and payments.

In case of the inability of the credit department to collect an amount past due, after mailing statements, writing letters and making drafts, or where a merchant is in financial difficulty, the account is transferred to what is termed the "docket ledger" (also the loose-leaf ledger system) and a sheet made, upon which is inserted the reason why the account is placed on the docket, as well as a synopsis of all

correspondence after the transfer is made. This docket is carefully watched by the company's attorney and his assistant.

Uniform courtesy to all requests for credit information is absolutely essential. A wholesaler seldom personally calls upon a credit man for information, unless he is somewhat suspicious of the account inquired about. Inasmuch as his suspicions are probably well grounded, valuable information can often be gotten by an interchange of experiences and impressions. This also refers to the reporters for either of the Dun or Bradstreet mercantile agencies, who, if given honest information, will gladly give in return the result of their trade investigation upon the standing of any particular merchant.

The essential points in this system are: Full and satisfactory initial information, frequent revision of information, closest watch on doubtful customers and overdue accounts, prompt and strict collections, economy of time in the credit department, and avoidance of delay in filling and shipping orders.

CHAPTER XIV

A CREDIT AND COLLECTION SYSTEM FOR A MANUFACTURING HOUSE.

BY ALFRED TERRELL

Credit Manager, The Simmons Manufacturing Company

The two chief causes of a high percentage of losses from bad debts in a firm's accounts, in so far as they can be attributed to the credit man, are lack of judgment and carelessness. From this the logical deduction follows that the requisites of a good credit system are: first, the prevention of poor judgments by bringing before the credit man, to aid him in his determination of credit extension, the fullest possible information regarding applicants; and, second, the eradication of carelessness by keeping before the credit man at all times the details regarding customers' accounts, and by warning him automatically when an account becomes dangerous or a customer doubtful.

The more general chapters of this book have treated exhaustively of the functions and work of the credit department and the credit man, and it would be mere repetition to enlarge upon them here. The point has been emphasized that the credit man should not be so overwhelmed with petty work that no time is left him for thought and study; his system, therefore, should take care of the routine and attend to the details of the credit department mechanically without the necessity of his attention, leaving his mind free for the weightier affairs of his position. The

system should be such that orders are delayed as little as possible in their passage through the credit department; information or records necessary for the determination of an extension of credit should be at hand.

The collection department is a part of the credit department. The system should provide for the prompt collection of accounts receivable. It should keep the collection manager in touch with debtors automatically, informing him of the general condition of accounts and when they become overdue. The system should, finally, keep an accurate and easily understood record of the condition of all customers, both in the present and the past, so that their whole history and business conduct from the beginning of their relations with the house are always before the credit man. Close touch with the bookkeeping and sales departments of the house, whose activities are intimately interwoven with the work of the credit department, so necessary for the smooth working of the general machinery of a mercantile establishment, should be insured by the system.

The system here described is in practical operation in a manufacturing house, which, like most establishments of its kind to-day, sells both to jobbers and retailers, so that the system is equally applicable to either a manufacturing or wholesale business. As an excuse for its having been selected for presentation here, it may be stated that the house which uses it last year showed a percentage of loss of seventy-three thousandths of one per cent on the total amount of business done—considerably less than one-tenth of one per cent.

All the mail entering the house is opened by a mailing clerk. The only thing that this clerk does is to mark on the letter the index number of its writer. Each correspondent of the house and each firm or individual who does any business with it is given such an index number, which is a consecutive number, one series for each state. Thus, the number of John Jones, who lives in Peoria, Ill., will be Illinois 126; that of Will Brown, who lives in Des Moines, Ia., is Iowa 489. This number is used in all the filing done. The correspondence is filed numerically under the states by these numbers; they are used as the numbers of the ledger accounts of the customers; orders are filed according to them; mercantile and other reports are classified likewise. An alphabetical index of all customers is kept, so that, when a man's name but not his number is known, the latter can be immediately found. Everything else is filed according to his number.

The letters given their proper number by the mailing clerk, all the correspondence passes to the credit man for distribution. Why to him instead of, as is the usual custom, to the secretary of the firm or to some clerk? Because the credit man, more than any other responsible head of the house, must keep in touch with the affairs of the house. He can thus keep absolute track of collections when they come in, without having to get a report from the book-keeping department every day; he can see who is taking advantage of discounts, and the drafts which are returned—a very important fact for the credit man's store of knowledge; he can keep in touch

glance at an order to determine whether he can let it pass; his constant contact with remittances and general correspondence through his handling the mail just described, his relation to the collection department, and his periodical revision of all his information regarding customers, to be described later, bring to his mind the instant he sees a customer's name the condition of his account. He need not know all the details of the special report which he may have received from one or more of the agencies; all he needs to remember is: Did I determine that this man was good when I studied his report? What is the present condition of his account? Does he owe anything? Are any of his bills overdue? And is this the usual size of his order?

If he knows these facts, and they are favorable,

INDIVIDUAL NO. _____

NAME _____

ADDRESS _____

DATE OPENED _____

L _____

D _____

B _____

REPORTS

Folder in which all reports are filed

he is safe in granting the credit desired in the order. If he is in the least doubt as to his customer's account, that is, if he is not sure of this information, or if the customer's account, as he remembers it, is not in good condition, let him wait. Hoyne's famous rule may be paraphrased for the credit man to read: "When in doubt, get more information."

But how, the question comes, can the system make a man obey this rule? How can the system influence a credit man to wait and get more information? Is not that a matter of judgment or of will? The system helps and trains him to wait, because it makes the acquisition of more information so easy, almost automatic. When the credit man feels doubt or suspicion regarding any account, he lays the order to one side. An office boy, knowing that orders lying in that place are to have the accounts of their senders investigated, takes the letter or order, finds on it the index number, goes to the ledger file—the card system of ledgers is used with this system—picks out the proper card and brings it to the credit man.

When the credit man has finished distributing the correspondence, this little pile of orders with the ledger cards is ready for his consideration. The necessity for the credit department being the head of the whole office department, and so in control of the policy and methods of the bookkeeping department as well as of its more immediate department, is here evidenced. Were the old bound book ledgers used, this system would be well nigh impossible, wholly impossible in a large business where the ledgers must be in constant use in the bookkeeping department.

But the taking out of a card here and there by the credit man for his use does not discommode the bookkeeping department's work, and the account wanted can be placed directly before the credit man and handled by him with infinitely more ease and despatch.

On this ledger card are the usual debit and credit entries, enabling the credit man to see at once the condition of the customer's account, terms on which goods are sold him, and his rating. But the distinctive thing about this card is a brief, written on a space provided on the most conspicuous part of the card, of the character and condition of the man, as abstracted from the various reports and other sources of information gathered regarding him. This brief contains the meat of the mercantile, attorney and personal reports; it is revised constantly as new information comes in, and obviates any reference to the long drawn out and rehashed mercantile reports. This card will tell the credit man at a glance whether the customer is worthy of further credit.

These briefs are compiled by the credit man himself. When a report is received on a new customer, a brief is made out and written on a small card. This is placed, together with the report itself, in a folder, upon which is entered the name, the index number and the rating and reports of the customer. It is then passed on to the bookkeeping department, where a ledger card is made out for this man and the brief copied onto it. The folder with the card and reports is filed in a report case in its numerical order. As new reports and information come in, the brief is revised.

It might seem convenient for the credit man to have these small card briefs filed in a little case on his desk instead of with the reports themselves, so that he could refer to them quickly without having to go to the ledger card. But this is the very thing which would encourage carelessness. Not having on this card the statement and history of the customer's account with the house, at least equal to the brief in importance, the credit man would be tempted to jump at his conclusions, having only half the needed information at hand, and guessing at the rest. And guessing, in a credit department, is no less than criminal.

In going through his orders, however, the credit man may come across one whose determination demands that he have more information regarding the customer than merely the brief on the ledger. This order he then throws into a designated pigeonhole and his clerk, knowing that the folder containing the full reports and information on this man are wanted, in addition to the ledger card, will get both and lay them before the credit man. Further than this, the credit man may desire an entirely new report on a customer. He then takes the folder, such as is shown in Figure II, marking under "Reports" from what agency or what sources he desires the report to be obtained. The clerk will immediately take this and send to the proper place for reports. All orders which are being thus held for information are placed together and the credit man goes through them every day, so that none will be overlooked and delayed any longer than is necessary.

A credit man will often be sufficiently secure regarding an account to send out the order, and still think it advisable to get further information in order to be forearmed. In this case he passes the order through, but marks on a folder as before the report wanted, and the clerk goes through the same process as for the preceding case. Instead of putting these folders with the pile requiring daily attention, they are placed in another pigeonhole to await the information sought.

This latter process applies especially to first orders from new customers. The clerk who opens the mail can recognize the first order, since the man sending it will have no index number. Such orders do not go with the general mail to the credit man's desk, but go immediately to his clerk, who makes out for the new order index and ledger cards and a report folder, writing on the cover not only the name and address of the new customer, but also the rating given by the mercantile agencies, which he immediately looks up. These folders then come to the credit man. Very often he decides from the ratings that he can venture sending the order at once, taking his leisure to look up the new man or firm in detail. This he will do only when the ratings are good and identical, a very significant consideration, for if the ratings are not the same, not only is one bound to be more unfavorable than the other, but it shows that the agency having the poorer rating has some information which the other could not obtain, and such information is always the most important to the credit man. As a rule, in such a case, he will hold the order for fuller reports.

The regular ledger cards are white. Two other shades are used to indicate specific conditions. When for any reason, such as payments becoming slow or local or general financial conditions adverse, an order is refused, the white card is immediately taken out of the ledger case, and a blue card, with the identical figures and information on it as the white card, is substituted. This shows to the credit department forever after that this man at one time or another was in such a poor condition that he was refused credit.

In the same way, when an account against a customer has once been passed up—placed in the hands of an attorney—a red card is substituted for the original white ledger card, and always remains in the ledger case, even though an account is again opened with the customer. It constantly warns the credit man that once he had trouble with this man and was on the verge of a loss through him, and the card stands as a perpetual warning.

No stain or smirch is harder to eradicate than one on a man's commercial reputation; a fall, even a stumble or slight waywardness, is always remembered, not necessarily against him, but about him, by the careful credit man, and rightly. A man who has once shown instability, who has once failed to meet his just obligations, who has once completely failed, has shown that there is some weakness in him; something constant and permanent produced that weakness, whether it was in his character, his ability, his amount of capital, or in his location; very rarely does it happen that it was merely transient, although there are, of course, exceptions. Once a man's account is upon such a blue or red card, although he may come

to have it entered upon his brief that he has completely recovered and is now perfectly sound and trustworthy, still always will his former weakness be brought to the attention of the credit man.

The order O. K.'d by the credit man, it goes to the invoice clerk. He makes four carbon copies of the order on the machine. The first one, **Routine** called the quad sheet, goes to the **Collection** collection department; the second serves as the **Methods** bill which is sent to the customer; the two others go to the warehouse for the filling of the order. When the order is filled, one is kept at the warehouse as its record and receipt of the goods shipped; the other is sent back and serves as the source from which to post the ledger. The first and second copies, which have been held by the billing clerk pending the shipment of the goods, are sent to their destinations. The one which goes to the collection department is divided into two parts by a perforated line, so that the part containing entry of the individual order number, the date shipped, the order number, the terms and the amount of the invoice can be torn off. This end which is torn off serves as the collection department's tickler; the remaining part of the bill is filed in its numerical order number for convenience in reference.

Suppose this order was shipped on March 1st, and the terms are thirty days net. The quad will be filed in the tickler thirty days ahead. On the 1st of April, therefore, it will come to the attention of the statement clerk in charge of the tickler. He looks up the ledger account of the customer, and if he finds the bill is unpaid, he will send a statement of the account, which is made in duplicate. The original is

urged to offer some satisfaction, some form of settlement, however slow it may be; to unburden himself to such an extent that the house may know where it is at regarding the account. A very efficacious play in extreme cases is to telegraph rather sharply immediately upon return of a draft, expressing surprise at the dishonor of the draft and demanding immediate remittance. This will, in the majority of cases, bring payment. If it does not, after one or two letters, another telegram, very sharp this time, will be likely to bring something. The main thing in these collection methods is to seek to impress the doubtful debtor that the house is watching its accounts sharply; that it wants its money when due; that it is bent on doing business on a business-like basis.

If no satisfaction can be secured through specific means, forcible legal methods must be resorted to. Before any legal steps are taken concerning an account, the matter is referred to the credit man, and is left in his hands. He may make a further effort to secure payment through peaceable means, or may at once hand the account to an attorney for collection.

When an account has been placed in the hands of an attorney, a red ledger card is at once made out for the debtor, and the balance of his account is entered in a suspense account. At the end of each year the balance on the suspense account is examined and an estimate made of the probable percentage of collections to be obtained. Thus, if the credit man thinks that twenty-five per cent of the claims in the suspense account are collectible, seventy-five per cent are entered in the profit and loss account for the year; the other twenty-five are left in the suspense account.

Whenever a collection is made in this account, it is credited to it. The object of this suspense account is to keep bad debts off the books, without, at the same time, charging them into profit and loss account at once, and so necessitating the opening of that account in the course of the fiscal year, a procedure replete in possibilities of errors and concealments.

It is thus apparent how the credit man, through his connection with the collection department, which reports to him all accounts overdue more **Keeping in Touch With Accounts** than thirty days, and also all accounts on which drafts have been dishonored, keeps in touch with delinquent accounts. His information is rendered still more accurate from the fact that he handles the remittances in the mail and examines many accounts in the course of a month.

In the particular business in which this house is engaged, most of the heavy buying is done at two distinct periods of the year. Just before these buying periods come around the credit man goes over all his accounts and the reports on all his customers and revises them, getting fresh information and reports in all cases where it appears in the least necessary. In some few cases, of houses on such a firm foundation and reputation that their commercial honor is positively unassailable, it would be a waste of time and energy to get fresh reports. In other cases reports may have been obtained only a short time ago, and so will serve for the coming season. The semi-annual revision gives the credit man a new hold on his accounts and a clear survey.

It is true that this system alone cannot make a credit man; nor can it make a very careless credit

man entirely careful. The credit man must do his share; the system will meet him more than half way; in fact, will educate him into careful, conservative habits.

This system will work carefulness into a credit man; he will never go ahead when in doubt. Every man must face some losses; he cannot escape them if he does his duty by the sales end of the business. In describing this system, it should not be understood that the taking of no chances at all is advised. Such a course would be as bad as being too free with credit; but if the credit man does take chances, by proper judgment in picking his chances and by proper carefulness in setting the terms on which he takes them and the guards he puts about them, he can reduce his chances almost to certainties.

CHAPTER XV

A SYSTEM FOR THE CREDIT DEPARTMENT OF A RETAIL HOUSE.

By T. J. ZIMMERMAN

The two chief desideratums to be reached in the accounting end of a retail credit department are expansibility and promptness—expansibility, because the great retail houses now carry anywhere from five to one hundred thousand accounts on their books, some of which are intermittent, others very heavy; promptness, because it is much more important in retail than in wholesale business to train customers to prompt paying, and this can only be accomplished by submitting bills regularly and quickly.

Accounts are usually opened in a retail store in an indirect way. A customer who is making his or her first credit purchase does not generally make a direct request for credit, but simply has the purchase charged. The clerk who makes the sale, not knowing of course that this customer has no charge account, makes out his usual charge sales slip, indicating that the sale is to be charged. The ticket is passed up to the stamper like any other, and he, not finding the customer's name in his book, knows this is a new customer, and sends the matter up to the credit office.

If the customer wishes to carry the goods away with him on the first purchase, he is usually requested to see the credit manager at once; if the goods are to be delivered, the credit manager has time

to investigate the case at greater leisure. When such a first charge slip comes to the credit manager, or a direct request for credit is made, he sets the machinery in motion for investigating this new customer.

In the first place he may request a personal interview. In this the two things he seeks to discover are the integrity of the applicant and his resources. The first he must discover through his powers of observation and his ability to read human nature, and also from the consistency of the facts which the applicant gives him. His resources he must find out from direct questions as to the position, income and the property of the applicant. These facts—the applicant's name and residence, place of business, or, where the wife applies, the husband's income and property—the credit manager enters on a blank.

He then proceeds to make use of outside sources of information. He verifies the residence and the place of business of the applicant. He applies to the local mercantile agencies for reports upon the individual in question. These agencies in one way or another accumulate a great mass of information and can afford reports on many individuals, especially those questionable persons against whom they have held accounts for collection, or previous queries, and therefore concerning whom they have collected information. The character and scope of the services of mercantile agencies in this direction are improving, and information on almost any individual of any standing is obtainable. These agencies gather in-

formation almost entirely on individuals and not, as a rule, on firms and corporations.

The regular commercial rating agencies can be appealed to in case the applicant is a man engaged in any commercial pursuits; in this case the credit man will receive the same information that a wholesale credit man would get—the complete facts concerning a man's business record, integrity, property and credit standing.

The credit manager receives every morning the mercantile sheets and legal bulletins which give the bankruptcies and failures of the previous day, the suits which have been brought, both in the higher courts and justice courts, the mortgages foreclosed and chattel mortgages recorded. These sheets are annually compiled into a year book, and into a decade book, so that one book will give the names alphabetically arranged of all individuals against whom suits have been filed, or who have gone into bankruptcy, or against whom mortgages have been recorded or foreclosed in the ten years past. This is a very important source of information to the retail credit manager in a large city.

In the majority of instances a personal interview with an applicant for credit is not necessary, this outside information affording all the data essential for the formation of the credit manager's judgment. Usually the applicant is not even aware that an investigation has been made. It may be said that in a great majority of cases where credit is asked, it is extended. This is done because, in a retail more than in a wholesale house, credit can be graded and qualified according to the customer's status.

When the credit manager has determined that extension of credit is advisable, he places a definite limit on the monthly credit of the new customer; for instance, he determines from his knowledge of the individual's reputation, income and resources that he is entitled to a credit of, say, \$50 a month. This does not mean that the customer will never be allowed to buy beyond this sum, although no one but the credit manager has discretion to extend credit beyond this sum, and he will do so only after careful investigation; the customer never is told that such a limit has been set.

When an account is opened, the name of the customer and the salient facts regarding him—his residence, business address and credit limit—are spread on all the indexes in the hands of the stampers throughout the store. The duty of these stampers is to approve of all charge sales, and the names and limits in these indexes afford the basis on which they pass on sales. The limit is also entered at the top of the customer's ledger page.

All information collected concerning the customer—his own statements, reports from agencies and other facts—is placed in a folder, which is filed alphabetically in a vertical file cabinet. In this folder is placed also all subsequent information; for instance, if the customer becomes notorious for slow paying or for complaints, or if his account has to be placed in the hands of an attorney for collection, these facts find their way into this folder, and it becomes a complete source of information upon every credit

customer of the house. These records are kept in credit manager's office.

A credit manager's source of information for credit customers of whom he has a list is therefore threefold. He has in the first place his personal impression of the customer, in the second place he has all the specific facts regarding the customer's history and character in his folder files, and in the third place he has the customer's accounts. Information on all but the gilt-edged customers should be revised at least once a year. For this the credit manager has his original sources of income to draw from, and he should in addition go over all accounts in the least doubtful.

Now let us go back and follow the course of one charge sale through this system, on the supposition that the customer making the purchase has an open account with the store.

**Method of
Passing on
Credit Sales**

When the sales ticket for a charge sale has been made out, it first goes to a stamper to be approved for delivery. There are twenty-five of these stampers scattered throughout the store. Each has an index in which is listed every one of the store's charge customers, in good standing or otherwise.

Opposite each name is set a certain limit of credit. These limits must be revised daily, for the limit here set down is not identical with the customer's regular credit limit, nor is it wholly determined from it; it depends also upon the amount the customer already owes for the current month, how much he has overdue and his general standing. As a further safeguard, the stamper is allowed to pass through sales up to only one-fourth of this limit. If the sale

calls for a greater sum than this, the ticket must be sent up to the credit office for consideration. It must be remembered that the purchases made by a customer in one visit may go to half a dozen different stampers, so the limit of each stamper must be small. The credit department, having complete information at hand, can determine intelligently and safely whether credit above this limit can be extended.

To take a concrete instance, suppose a customer's total credit limit is \$50. Suppose it is the 20th of the month, and the customer has already drawn upon his account to the extent of \$20. On the morning of the 20th the credit limit placed beside this customer's name in each of the stamper's books will probably be about \$20, and each stamper can pass sales through for sums up to \$5. If a purchase exceeds, it is referred for approval to the credit office.

When an account is opened the new customer is given a card with merely his confidential identification number upon it. He must present this card whenever he wishes to carry away purchases which he has charged. This prevents one person buying fraudulently under another's name. The salesman attaches this card to the sales ticket and it is passed first to an inspector—one of whom is in every department—who has a book with these numbers listed in them and has discretion to pass through sales up to a limit of a few dollars. If the purchase exceeds this limit, the inspector refers it to the floor walker, and if he considers the amount too large for him to pass on it goes up to the stampers, and must pass through the regular routine.

At the end of each day, all charge tickets are

gathered together and go into the credit sales section of the bookkeeping department, after they have gone through the auditor's office and been checked there. The charges are immediately posted upon the ledgers. Loose leaf ledgers are used in this system, and the accounts are arranged alphabetically. The ledger sheets are ruled off for three col-
The Ledger and Billing System umns: In the first column are entered each day the debit charges; in the second column are entered, in red ink, credits, in the third column is entered the balance due. This column is balanced every time an entry is made in either of the other two, so that a glance at any ledger page will show at once how the account stands. When a ledger sheet is full it is transferred to the transfer files, also arranged alphabetically, and is filed away in vaults with its predecessors. This enables an establishment to keep together in one place the entire account of each customer, no matter how many years it may have run.

After the posting is completed, the sales slips are passed on to the billing department, and the charges are immediately entered on bills; that is, bills are not made from the ledger account at the end of the month, but sales are posted direct to bills day by day. Therefore, if, on the first day of the month, Mr. Smith makes a purchase of \$10 and has it charged to his account, the morning of the 2d this slip with all the others comes to the bill clerks, and a new bill for the month of June is started for him, upon which first charge is at once entered. The billhead is ruled for three column entries: In the first column are entered the debit charges, not in totals, but with each

article of the sale itemized; the second column is used for totaling these individual articles by daily sales; the third column is used for entering credits. The bill clerks keep the bills arranged alphabetically during the whole month, and each day they post the charges from the previous day's sales tickets.

On the last day of the month, therefore, the bill clerk has merely to post the charges of the day, and, without any further work except to total up the columns and subtract the credit from the debits, the bills are complete and can be sent out on the evening of the last day of the month.

The bills are made out in duplicate and the carbon copy is filed in an individual folder for each customer, in a vertical filing case, where are kept all the duplicate bills for the previous twenty-four months.

Retail customers, even more than the customers of the wholesale houses, must be trained to prompt payments. This is true not only because a retail house sells on a close margin and considers after all that it is merely doing a favor by extending credit at all, but also because it is impossible to get the close information and the firm hold over a customer that the wholesale house can. The retail house deals principally with women. For this reason collections must be made in a more adroit and less coldly businesslike way. When an account is opened with a customer, especially if she be a woman, she is given plainly to understand that bills must be met between the 1st and 10th of the month, immediately upon receipt of statement. If they are not paid by the 15th a second

Collection
Policy and
Methods

statement is immediately sent, calling the customer's attention to the oversight and asking for an immediate remittance. The customer's charge sales are not stopped at once unless the account in question is very large, for—and here again because the customers are chiefly women—it is a fatal policy to refuse a woman credit when she has been accustomed to receive it. She is apt to regard such action, which a business man would look upon as an ordinary condition of business, as an insult, and promptly withdraw her patronage. It is also impossible to dun this class of customers in the same cold-blooded and insistent way that a wholesale house can do.

If the second statement brings no result, personal collectors are sent out. These are all under the jurisdiction of the credit manager. For, as has been said before, this is not purely a business transaction. There is a personal and human element in it which must be taken into consideration. It cannot be determined on business principles. It must be carried on with an understanding and consideration of human nature as exemplified in this class of customers.

The credit manager of a retail house must above all remember that most people are honest and want to be honest, and that even a greater majority will be honest if they are helped along in the right direction. He must study the personalities of his customers, their social and business conditions especially, so that he will know when it is well to let an account run for two, three and even six months without making extreme demands upon the customer. On the other hand, when a retail credit man has once made up his mind that he cannot afford to get any deeper with

a customer, he should act quickly and promptly. The customer must be made to understand that he is not treating the house fairly by not paying his account, and that, although the store wants his account and is glad to have his business, further credit must be refused him until a settlement is made.

The collection system of this store is, therefore, very simple. It uses the two statements mentioned, and after that treats each case individually through collectors under the instruction of the credit manager.

A retail store must be chary of bringing suits for collection. Bringing a suit means the loss of a customer in a double sense. The retail credit man always has to keep in mind that his object is to increase sales, and that anything he may do to lessen cash trade is superlatively criminal. If a customer is not worthy of credit, the credit man should at least not turn him away from the paths of cash buying. A suit will mean the loss of a customer's cash trade as well as his credit trade. Then, too, habitual suit bringing will give a store a bad reputation. The outside world, not knowing the circumstances of the case, will frown upon a store which is known to bring suit frequently and quickly.

It has been found that constant pounding by correspondence, by repeated statements and collector's visits, is much more efficacious than stringent measures in bringing payment in the case of the retail house, where a debt is looked upon more as a thing of honor and less as a thing of business.

CHAPTER XVI

A CREDIT AND COLLECTION SYSTEM FOR AN INSTALLMENT HOUSE

BY HENRY MARCUS

Of Spiegel's House Furnishing Company

It is doubtless true that in every business the collections are a vital part of the credit department, but in no other business enterprise are the collections so prominent and vital a feature as in a business conducted on the installment plan. In a credit system for the installment house, therefore, the point of emphasis, the heart about which structure must be built, is the collections.

Such a system, to be successful, must accomplish four objects. First, it must provide a quick means by which the responsible head of a credit department may approve an account. In a retail installment business sales are made to customers personally in the store, and accounts must be opened almost on the spur of the moment, with little investigation, and, what is even more important, without giving offense or annoyance to the customer, who is probably standing at the credit man's elbow while he is deciding on the advisability of extending credit.

In the second place, the system must afford adequate security for the goods sold, and in this way make up for the almost entire impossibility of choosing customers. Thirdly, since the amount involved is relatively small to begin with, the installment pay-

ments themselves are, of course, still smaller. The bookkeeping required for a single purchase is considerable, and the system must seek to reduce and simplify it as much as possible. Lastly, the system must provide a cheap and simple but efficient and almost automatic method for making the collections. This is its most important function. The system here described is in use in a large furniture installment house, and has been found to fulfill these four objects.

When a sale which is to be paid in installments is made, the salesman makes out an order blank, such as is shown in Figure 1. On this blank
Orders as is shown in Figure 1. On this blank
Taken and he enters the name and address of
Entered the customer, the amount of the cash payment which is always insisted upon as evidence of good faith, the amount and the time of the monthly installment, and the salesman's name. In the spaces below are then entered the various items of goods bought.

The order goes at once to the head of the credit department, or preferably to a member of the firm, for approval. If approved, the purchaser gives to the house his note for the amount of the sale less the cash payment. This note is secured by a mortgage taken by the seller on the goods sold. The mortgage must at once be taken by the customer before a justice of the peace to be sworn to, and before a county recorder to be recorded. The goods are then shipped to the customer.

This sale order has been made out in duplicate, one to be kept in the office as the original record, the other to be sent to the various department heads, in order that they may find out at once whether they

have the goods desired in stock. In the office the order is given an order number, by which this sale is known forever after. A clerk now makes out a new order sheet (Figure I) in triplicate from this sales blank, entering thereon the same data as was on the order blank, except that the price goes only on the first sheet. This sheet remains in the office; from it all the office records described below are made. The other two go to the shipping department. One of these, identical with that shown in Figure I, serves as the shipping clerk's assembling sheet. As the various items on the order are loaded on the wagon after being assembled, he checks them off his sheet. Those articles ordered which he has not in stock, and shipment of which he must delay, he circles on the sheet, and at the same time enters on a back order sheet. This he keeps on file and checks off the articles thereon as he receives them from the manufacturer and delivers them to the customer. The third sheet serves as the driver's receipt (Figure I); he carries this with him, has it signed by the customer and returns it to the shipping clerk. When the goods have been delivered, the two sheets which were used in the shipping department are returned to the office and filed numerically for future reference, in case complaint is ever made of non-delivery or delivery of wrong goods.

From the sheet which is left in the office, two cards are made out, one the ledger card, the other the collector's card. All ledger accounts are kept on cards which are filed alphabetically, according to the name of the customer. On the ledger card (Figure II) is entered the name and address of the customer, his occupation, the name of the salesman. date

Spiegel's House Furnishing Co.

Order No. _____ 190

Name _____

Address _____

Terms { 1st Pmt. _____
 Monthly _____ When _____

Salesman _____

Wm. T. O'Neil System 1900 American Stationery Co., Mfg. Chicago.

QUANTITY	NUMBER	NAME	ARTICLE	PRICE

Received of SPIEGEL'S HOUSE FURNISHING CO.
THE FOLLOWING ARTICLES IN GOOD ORDER AND PERFECT CONDITION.

Name _____

Address _____

Loader _____ Driver _____

QUANTITY	NUMBER	NAME	ARTICLE

SPIEGEL'S HOUSE FURNISHING CO.

ORDER No. _____ Date _____

Name _____

Address _____

When _____ How _____

Salesman _____

QUANTITY	NUMBER	NAME	ARTICLE	PRICE

Figure: Upper form is salesman's order blank; lower is one of triplicate copies made out in office; middle the driver's copy

of the sale, the order number, the amount of the purchase, the amount of the first payment, and the balance due. In the blanks provided underneath are entered in red ink the dates and amounts of the installment payments to which the customer has pledged himself, and spaces are provided for the entry, in black ink, of the date and amount of the actual payments and the balances due after each payment. By comparing the black and the red entries at any time the exact condition of the account can be seen.

Whenever a sale is made, the amount of cash paid down is entered on the cash book, while the amount of the charge, that is to say, the amount of the sale, less the cash payment, is entered in the journal and the folio on which this account is entered is also recorded on the ledger card so that it can be referred to at any time.

The collector's card (Figure II) has recorded upon it the same data as the ledger card, but is placed in a tickler cabinet, according to the date **Method of** on which the next payment falls due. **Making** Thus, in the cards reproduced here- **Collections** with, a sale was made on February 1st amounting to \$100, of which \$10 was paid down and the first installment is due March 1st. The collector's card would be filed in the "T" pigeonhole of the tickler. On the morning of March 1st the cards in this March pigeonhole, all with payments due this day, are pulled out, each is compared with its corresponding ledger card to see if the payment due has already been made by the customer; if the ledger card shows that the payment was made say two days before, the amount of the payment and the date are

entered on the collector's card, and it is thrown ahead into the pigeonhole of the next payment, April 1st. The cards of the customers who have not paid are given to the manager of the collection department. He first looks through them carefully to see whether any there are regular, good payers, and not therefore to be dunned. The cards of these customers he takes out and files in the tickler a few days ahead; if by the time these cards come to him again the payments have not been made, he will send the collector to the customers.

The rest of the cards the collection manager classifies by districts into which he has the city divided for collection purposes, and to each of which a collector is assigned. Before the cards are given over to the collectors, the name of each customer and the amount due is entered on a book, which serves as a check on the cards while they are out, and a receipt from the collectors for the cards which they carry. The collectors call on the customers whose cards they hold, and when they return to the store in the evening they record opposite the names in the book mentioned what each customer has done—whether he has paid, whether he has promised to pay on some future date, or whether he was not at home. A clerk then takes this book, the collector's and the ledger cards corresponding to them. Where a collection has been made he enters it on both cards and files the collector's card according to the date of the next payment; if a customer has promised to pay, say in ten days, this fact will be entered on the collector's card, which will be filed for March 10th; if a customer has promised to call, this fact is entered on the card and

[illegible]

Fig. II: The Ledger and Collector's Cards: both are ruled similarly on the reverse side

it is filed in a pigeonhole at the cashier's desk according to the day on which he has promised to call. The cashier thus keeps track of these people and finds out whether they do as they promise. The cards of those customers who were not at home are again taken out by the collector on the following day.

When a payment is made at the office, it is at once entered on the ledger card, which is quickly found, as it is filed alphabetically. From the dates in red ink on the ledger card it can easily be determined in what pigeonhole of the tickler the corresponding collector's card is, and so this card can be looked up, the payment entered, and the card filed ahead for the next payment.

Should a new purchase be made by a customer while a previous installment account is still open, the ledger and collector's cards of the old account

are also used for the new. The date and amount of the cash down payment are entered as before, the amount of the monthly installment payments, entered in red, are changed to correspond to the increase brought by the new purchase, and the balance due will also be increased. This combining of payments saves collection labor and confusion.

When an account is paid up, both cards are stamped paid and filed away alphabetically. Thus, a customer who has had twenty or thirty accounts with this firm will in all probability have twenty or thirty old ledger cards and they will be all filed together, so that his record can be looked up at any time—a valuable asset in a business of this kind with thousands of customers and information regarding them hard to obtain.

The value of the card ledger for this kind of business cannot be overemphasized. Whatever may be the advantages in other kinds of accounting, for installment accounts it seems almost indispensable. With so many small amounts, requiring so many small and frequent entries, the keeping of accounts in the old-time heavy tome, unwieldy and cumbersome, would more than double the office work. The inevitable scattering of different accounts of the same customer throughout various volumes would render it impossible to study them all together, and would thus destroy the most valuable source of information of the installment house. The ledger cards also serve as an alphabetical index of all customers, an immense saving of time and money which would be required to keep so necessary a record.

CHAPTER XVII

A CREDIT AND COLLECTION SYSTEM FOR A RETAIL HOUSE.

By C. C. PARSONS

Of The Shaw-Walker Company

In this chapter will be given a description of merely those elements of a credit and collection system which might be called mechanical. That is, that work in a credit department which is entrusted strictly to mechanical appliances.

In the handling of an individual credit in a retail house the opening of the account is the first process. Usually a person wishing to open an account makes an application on the proper form (Figure I), which is supplied by the firm. On this card is given the name, residence, business and business address of the applicant, as well as other information, such as amount of property, regular income, size of bank account, and other details, varying with the policy of the credit department. As soon as this application reaches the credit man he is in a position to look up all of the references and determine whether the applicant is deserving of credit. The information which he will receive will be either in the form of reports from mercantile agencies or from his own reporters, or letters from the applicant's references.

All this information, for its proper filing and preservation, needs two office appliances. A card index of all applications received in the first requisite.

Each card (Figure II) should give the name, residence, business address or place of work, general reputation, the file number (under which detailed information is filed) and the names and addresses of the different persons who have guaranteed the account, and also a place for such notation as a credit man wishes to make regarding the value and status of each applicant. These cards are, of course, arranged in filing cabinets alphabetically. The filing numbers will refer to a vertical file where is kept, in folders—one folder for each applicant—all the information pertaining to the applicant and, when he becomes a customer, to his account. The customer should then be notified on a regular blank that a credit account has been opened with him.

Orders come in to a retail house either through direct buying over the counter or through the mail. The volume of the latter is comparatively small and their treatment is the same as in the case of a wholesale house. That is, the credit man or his assistant passes upon the order, basing his judgment upon the information contained in the customer's folder and in his ledger account. The orders, when approved, are turned over to the order department.

Orders coming in over the counter should all be passed upon by some responsible person before the goods leave the house. In case the goods are to be delivered, this becomes very easy, inasmuch as orders can be passed upon either by the credit man or the cashier in a small house, or, as is necessary in a large store, by a number of passers especially assigned to this work, who carry a book or card index, bearing

CREDIT APPLICATION BLANK	
	DATE <u>May 22, 1904</u>
NAME	<u>David Lay</u>
RESIDENCE	<u>3695 Indiana Avenue</u>
BUSINESS ADDRESS	<u>51 State St.</u>
BUSINESS	<u>Accountant</u>
INCOME	<u>125⁰⁰ a mo. and rents</u>
PROPERTY	<u>Home, flat building, 4289 Indiana Ave.</u>
REMARKS	<u>Applied in person. will bring good trade.</u> <u>is young and chifty</u>

Fig. 1: The Credit Application Blank which the credit man makes out from questions asked the applicant

the limit to which they can extend credit to each customer. If a sale is made to a customer whose limit has not yet been reached, it is approved by these passers and goes directly to the bookkeeping department, after the order is filled. If a customer's account is such that the passers cannot approve a sale, it should be sent in to the credit office, where it will receive more intelligent consideration.

In a store of any considerable size it is necessary to keep up the billing on open accounts day by day, otherwise the accumulation of work to be done by the billing clerks at the end of the month would be so large that bills could not be gotten out promptly. On account of the multitude of small purchases which each customer is likely to make, a saving of the double time of billing and posting is advisable. This can be accomplished by means of a combination statement and ledger sheet, made out at one time

NAME	David Kay	RESIDENCE	3698 Indiana Avenue
BUSINESS ADDRESS	51 State Street	BUSINESS	Accountant
PROPERTY	Home Flat Building	4289	Indiana Avenue
REPORTS	From A.B.C. Agency	How credit good	Prompt Payments
GUARANTORS	T.D. Thomas	189 North State Street	C. Van Kesteren
ACCT. OPENED	May 31, 1904	FILE NUMBER	2864
REMARKS	CREDIT LIMIT 50.00		
Jaca Sales. Send bills to business address			

Fig. II: A card out of the alphabetical index of all credit customers; a brief of all information concerning this person

in duplicate on loose leaves, as shown in Figure III. These two sheets are kept together during the month. Each morning, as the slips of the preceding day's sales come to the bookkeeping department, they are posted to these sheets, preferably on a flat-bed typewriter, although a cylinder machine is often used. These charges are entered in black ink. The moneys remitted by the customer for past bills are posted to date in the same way, but in red ink. The balances may be struck daily or may be taken only at the end of the month. At the end of the month the difference between the credits entered and the debits entered shows the amount due from the customer. Before the bill is sent out a new set of duplicate sheets is made out and the total debit of the preceding month is the first thing entered on the new sheets, thus making the new bill really a ledger account of past transactions.

In order that the credit department may be informed concerning the conditions of accounts two things are necessary. In the first place, it is advisable that all letters referring to orders, complaints regarding orders, and all letters containing remittances,

should go to the credit department immediately, so that its officials may keep in the closest possible touch with customers and their accounts. **Keeping in Touch with Customers** Remittances are passed from the credit man to the cashier, who enters them on his cash book and then passes the letters over to the bookkeeping department, where, as has been said, they are entered in red ink on the ledger bills. In case a remittance balances an account, this statement becomes a receipt in full and is sent out to the customer at once. If it is only a payment on account the statement is held until the end of the month.

The second means for keeping the credit department in touch with accounts is to enter at the top of each ledger sheet the credit limit of the customer. In case an account at any time runs over the limit,

CREDIT LIMIT 50⁰⁰ <u>David Lay</u> <u>3698 Indiana Avenue</u>	
MONTHLY STATEMENT <u>David Lay</u> <u>3698 Indiana Avenue</u> BOUGHT OF HENRY BROWN & CO. CHICAGO, ILL.	

Fig. III: The duplicate ledger sheet and bill head

the posting clerk at once notifies the credit department, which then takes the course that the policy of the house or the character of the customer may dictate.

At the end of the month the bill sheets are sent out to the debtors; the ledger sheets are filed alphabetically, either in binders or in a vertical file. The latter is perhaps preferable, since each customer can be given a folder in this file, and all his ledger sheets, which are really nothing but duplicate bills, can be filed in this one place month by month.

This has been found to be a most successful, accurate and time-saving system of keeping retail accounts; the extra work of making out statements is done away with, since the ledger posting would have to be done anyway, the statements are ready to go out on the first day of the month, and there can be no errors, inasmuch as the statements are an exact duplicate of the ledger page.

To recapitulate, this system will then consist of the following:

An alphabetical card index of all customers and applicants, a numerical file containing in folders full information regarding customers and their accounts, a loose leaf billing and ledger system never more than a day behind in the records, an automatic arrangement whereby the credit man is notified as soon as an account becomes dangerous or exceeds a given limit and whereby every employe in the store with credit functions is notified of this fact.

